

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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START ADDRESS IN THIS BOX

23 MR. N. ZHARGALSAIKHAN
22 PRESIDENT
21 MONGOL BANK
20 ULAANBAATAR
19 MONGOLIA

18 MY COLLEAGUES AND I WOULD LIKE TO EXTEND OUR CON-
17 GRATULATIONS ON YOUR APPOINTMENT AS THE FIRST PRESIDENT
16 OF MONGOLIA'S NEWLY CONSTITUTED CENTRAL BANK. I LOOK
15 FORWARD TO MEETING YOU IN YOUR NEW CAPACITY IN AUGUST
14 AND TO CONTINUING OUR CLOSE COOPERATION.

13 WARM REGARDS,
12 KUNIO SAITO
11 DEPUTY DIRECTOR
10 ASIAN DEPARTMENT
9 INTERFUND

cc: JBO
DD
Mr. Stillson.

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D DRAFTED BY NAME (TYPE): EMilne/bbr EXT.: 7328 DEPT/DIV: ASD/B DATE: 5/31/91
AUTHORIZED BY NAME (TYPE): Kunio Saito AUTHORIZED BY NAME (TYPE):
(**)

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

May 13, 1991

REF: JBM\JBM0506.LTR

Dear Bill:

Thank you for your prompt response to my recent enquiry for assistance to Mongolia in developing a C.P.I. It is unfortunate that neither Col Clements nor David Allen is available at this time, but we could keep them in mind for a future assignment.

We will follow up on your suggestion of Ernie Harris as a candidate for the Mongolian assignment. I will also follow up with Steve Kuzmicich for a later date--Steve, of course, is well known to me. In all, I am very grateful for your assistance.

I look forward to seeing you in Geneva next month.

Best regards.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John B. McLenaghan".

John B. McLenaghan
Director
Statistics Department

Mr. William McLennan
Deputy Australian Statistician
Fax 61 6 253-1328
Canberra
Australia



PO Box 10
Belconnen ACT 2616

Telephone (06) 252 6703
Fax No (06) 253 1328

Mr J. McLenaghan
Director
Department of Statistics
International Monetary Fund
WASHINGTON D.C. 20431

cc: SBM

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1991 MAY 10 AM 9:28
BUREAU OF STATISTICS
IMMEDIATE OFFICE

Fax +1-202-6236460

Dear John

ASSISTANCE WITH CPI IN MONGOLIA

As I told you over the telephone we are not very well placed at the moment to help develop a CPI in Mongolia. We are hard pressed as we are just installing a new processing system for our CPI and are about to commence a thorough and complete review, revision and reweighting of our index. We cannot spare any senior staff to assist you for at least 12 months.

2 I did, however, contact Col Clements who has recently retired from the ABS and who is probably a 'world expert' on CPI statistics, to ask if he would be interested in doing this consultancy. Unfortunately he tells me he wants to keep away from statistics for 12 months or so and I wasn't able to persuade him otherwise.

3 I also contacted another ex-ABS officer, David Allen, who left to work as a private statistical consultant, to ask if he was interested. However, he recently started a new full-time job and hence was not available. (Incidentally, Lindsay Wolfe had also contacted him about his availability.)

4 I rang Ron Welply, my counterpart in the NZ Department of Statistics, to ask if he could suggest a suitable person for this consultancy. I subsequently spoke with Steve Kuzmicich, the NZ Government Statistician. As a result, I have two names to put forward. First, Ernie Harris, an ex NZ Government Statistician, who is a knowledgeable CPI person and who is still active in the statistical consultation work. His address is:

Mr E.A. Harris
165 Manly Street
Paraparaumu
Kapiti
NEW ZEALAND

Telephone: +64 58 84 680

Second, Steve Kuzmicich, who is a CPI expert is retiring in November and may be interested in such work after than time. I hope these suggestions are helpful.

5 At this stage I will probably be attending the Conference of European Statisticians in June in Geneva, so I look forward to meeting you once again and perhaps even having a couple of beers.

Kind regards

Bill

W. McLennan
Deputy Australian Statistician

10 May 1991



Office Memorandum

*This was,
unfortunately, to
late for decision.*

To: Mr. McLenaghan

May 1, 1991

Through: Peter L. Joyce *PLJ*

From: R. J. Walton *RJW*

Subject: Briefing Paper for the Statistical Mission to the Mongolian
People's Republic (May 6-27, 1991)

As noted in Mr. Wolfe's back-to-office report on the multi-topic statistical mission, Mr. Khuderchuluun, Governor of the State Bank of Mongolia, requested a follow-up mission to advise on accounting practices and reporting systems for monetary statistics. The need for this assistance is prompted by the authorities' plans to separate the central banking and commercial banking functions of the State Bank and to license new commercial banks. Work in these areas will be directed at developing a comprehensive statistical system that can underpin the formulation of monetary policy; provide the basis for monitoring a Fund program; and facilitate the regular and prompt reporting of monetary data to the Fund.

I propose, subject to formal confirmation of the mission from the authorities, to visit Ulaanbaatar during the period May 6-27, 1991. 1/ The work of my mission would be coordinated with the work of the Article IV consultation mission (April 29-May 13, 1991), and with the work of the CBD mission (May 13-27, 1991) that will be providing assistance in the areas of banking supervision, foreign exchange operations, and monetary control.

There are two main objectives for this mission:

(i) to modify the accounting structure of the balance sheet of the State Bank to provide for the separation of the commercial banking functions; and

(ii) to complete the work begun during the recent multi-topic mission of the design of report forms for the new commercial banks that would provide information necessary for monitoring monetary aggregates and for balance of payments compilation.

1/ My last day in the office will be Wednesday May 1, 1991.

1. Central Bank balance sheet

The mission will separate from the State Bank accounts the assets and liabilities that are to be transferred to the new commercial banks and work with the authorities on the design of the new central bank balance sheet and on the compilation of data in this format for 1985 through May 1991. ^{1/} This work will include advice on the treatment of Fund transactions. The mission will attempt to establish the reporting of trial balances (that could meet the need for preliminary monetary data soon after the end of each month) and the reporting of a summary format to be used for publication of central bank balance sheet data within Mongolia.

2. Reporting system for the commercial banks

Work on the design of a set of report forms and reporting instructions for the commercial banks will concentrate on the need for developing data necessary for conducting monetary policy and on the need to capture the full range of transactions that pass through the banking sector. The mission will review the commercial banks' data collection and accounting procedures to ensure prompt and consistent reporting and design report forms that will include summary data on balance sheet positions and more detailed information on the principal components of the accounts. The reporting system will also be designed to meet the central bank's need for supervisory information, insofar as this is possible at this juncture, and there will be close collaboration with the CBD mission to achieve this. Care will be taken to avoid duplication of commercial banks' reporting to the central bank.

Mission Report

During the mission, I will discuss with the authorities the procedures by which data on the monthly balance sheets can be used to compile the analytical presentations of the accounts of the central bank and the deposit money banks, and the monetary survey for Mongolia. I will discuss also with the authorities the procedures for Mongolia to report data to the Fund on a regular basis for publication in IFS and for the use of the Asian Department. The mission will leave with the authorities an aide-memoire outlining its preliminary assessment and recommendations.

^{1/} This will be annual data for 1985 through 1990, and monthly data from end-January 1991.

On my return to Washington, I will submit a back-to-office report by June 5, and within four weeks submit a draft of a final report on the main findings and recommendations of the mission.

An earlier draft of this briefing paper was reviewed by the Asian Department (Ms. Milne) and by the CBD (Mr. Johnson).

cc: Mr. Donovan
Advisors
Division Chiefs

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ATTN: OF MR. MELENAGHAN

WE RECEIVED YOUR TELEX. WE APPRECIATE MR. WALTON'S MISSION
AND BOOKED A ROOM IN THE ULAANBAATAR HOTEL FOR MR. WALTON
DURING MAY 6-27 1991

WE WILL PICK MR. WALTON UP ON MONDAY MAY 6 AT THE AIRPORT.

REGARDS, CENTRAL BANK OF THE MPR

91-04-30

3738761EMBMON

1991 APR 30 AM 10:58

BUREAU OF STATISTICS
IMMEDIATE OFFICE

cc: ~~JBA~~
DD
Admins
Joyce
Walfe
Walton

Mr. Donovan



Office Memorandum

To: Mr. Galbis

April 29, 1991

From: Richard Hides *RH*

Subject: Mongolia--Draft for Clearance

Attached please find for your consideration a draft cable to the Minister of Finance of Mongolia regarding Mr. Walton's forthcoming visit. There is an urgent need to obtain official confirmation of the timing of the mission (Mr. Walton's last day in the office is Wednesday, May 1, 1991). Mr. Saito will be arriving in Ulaanbaatar today, to begin the Article IV mission, and a draft cable to Mr. Saito is also attached.

Attachments

cc: Mr. McLenaghan
Mr. Donovan
Mr. O'Connor
Mr. Wolfe
Mr. Stillson

HIS EXCELLENCY
A. BAZARKUU
MINISTER OF FINANCE
ULAANBAATAR, MONGOLIA

REF: F1/TAS/MGA/MGARW-2.CBL

MR. EVANS
MR. NARVEKAR

WITH REFERENCE TO MY TELEX, DATED APRIL 16, 1991,
COULD YOU PLEASE TELEX CONFIRMATION OF TIMING OF MR.
WALTON'S MISSION AS SOON AS POSSIBLE. MR. WALTON PLANS
TO ARRIVE IN ULAANBAATAR ON MONDAY, MAY 6 ON AIR MONGOLIA
FLIGHT 224 FROM BEIJING.

REGARDS,

MCLLENAGHAN

DIRECTOR

BUREAU OF STATISTICS

INTERFUND

^{RJW}
RJWalton:Ler

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4/29/91

Peter L. Joyce

John B. McLenaghan

**

MR. KUNIO SAITO
C/O INTERNATIONAL MONETARY FUND
MINISTRY OF FINANCE
ULAANBAATAR, MONGOLIA

REF: FI/TAS/MGA/MGARW-3.CBL

MR. EVANS

MR. NARVEKAR

I HAVE TELEXED MR. BAZARKUU REQUESTING AN URGENT
RESPONSE TO THE PROPOSED TIMING OF MR. WALTON'S MISSION
(MAY 6-27, 1991). MR. WALTON PLANS TO LEAVE WASHINGTON
ON THURSDAY, MAY 2, FOR ULAANBAATAR, AND CONFIRMATION OF
THE MISSION BY THE MONGOLIAN AUTHORITIES IS REQUIRED
BEFORE HE LEAVES.

REGARDS,

MCLLENAGHAN

DIRECTOR

BUREAU OF STATISTICS

INTERFUND

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4/29/91

Peter L. Joyce

John B. McLenaghan

**



Office Memorandum

Mr. Donovan

To: Mr. O'Connor

April 29, 1991

From: Richard Hides

Subject: Mongolia--Statistical Mission (May 6-27, 1991)

Attached please find for your consideration the draft briefing paper for Mr. Walton's forthcoming statistical mission to the Mongolian People's Republic.

Attachment

cc: Mr. McLenaghan
Mr. Donovan ✓
Mr. Stillson
Mr. Wolfe

*Mr. O'Connor,
Pl. copy filed to
CBD (they have OK'd
it, I assume)
DP*

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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20 ULAANBAATAR, MONGOLIA
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DATE: 4/29/91

AUTHORIZED BY
NAME (TYPE) Peter L. Joyce

AUTHORIZED BY
NAME (TYPE) John B. McLenaghan

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**IMMEDIATE
ATTENTION**

EBD/91/131

April 26, 1991

To: Members of the Executive Board
From: The Secretary
Subject: Mongolia - Request for Technical Assistance

In the context of a broad based and phased Fund technical assistance program for Mongolia coordinated by the Asian Department, the Mongolian authorities have requested assistance in the modernization of the State Bank of Mongolia and in developing a market-oriented legal, regulatory and operational framework for the emerging two-tier banking system. It is proposed to comply with the request by sending a mission to Ulaanbaatar from May 13 to May 27, 1991. The mission will be composed of Mr. Patrick T. Downes, Advisor (Head), Mr. Omotunde Johnson, Deputy Division Chief, and Miss Amelita Concepcion, Staff Assistant, all from CBD; Ms. Elizabeth Milne, Senior Economist, ASD; Mr. Mo Huh, Senior Economist, ETR; a staff member or consultant from LEG; and a consultant from a cooperating central bank.

In the absence of a request for discussion by an Executive Director by noon on Wednesday, May 1, 1991, the proposal will be deemed to have been approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Other Distribution:
Department Heads



Office Memorandum

To: Mr. Downes

April 20, 1991

From: L. Wolfe *W*

Subject: Mongolia: Terms of Reference

I refer to your memorandum of April 18, 1991 and the attached draft terms of reference for the forthcoming Central Banking Department mission to Mongolia.

Attached is the draft terms of reference with some suggested annotated changes. The suggestions include the comments of Mr. Richard Walton and also the Financial Institutions Division II that is responsible for the monetary data of Mongolia. I would draw your attention to the two substantive comments on pages 3 and 8 respectively. You may also wish to review the minutes and aide-mémoire of the recent multi-topic statistical mission, copies of which were sent to you last Friday.

As we discussed, Mr. Richard Walton will be returning to Ulaanbaatar on May 6 for three weeks to follow up the work he started last month. His presence during your mission will enhance the coordination between his work and that of your mission, particularly in the area of data reporting for supervision and policy formulation.

Attachment

cc: Mr. McLenaghan
Mr. Donovan
Mr. Galbis
Mr. Stillson
Ms. Milne
Mr. Walton



Office Memorandum

1. LAW
2. ECU^{tr}
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To: Mr. Brau
Mr. Holder
Mr. Saito
Mr. Wolfe
Ms. Milne

April 18, 1991

Lindsay Wolfe

*Thanks for the opportunity
to comment*

From: Patrick Downes *PD*

Subject: Mongolia: Terms of Reference for Monetary Management
and Bank Supervision Mission

Richard Wilson
19/4

Please find attached the draft terms of reference for the CBD mission to Mongolia. I would appreciate receiving your comments by close of business on Monday, April 22, 1991.

Attachment

Mongolia: Terms of Reference for Monetary Management
and Bank Supervision Mission

May 1991

At several meetings with the Central Banking Department (CBD) staff during the 1990 Annual Meetings and in February 1991, the Mongolian authorities requested the assistance of the CBD in the modernization of the State Bank of the Mongolian People's Republic (the central bank); in improving banking supervision and foreign exchange operations of the central bank; in improving the payments system, particularly check clearing; and in reforming the operational aspects of monetary control and procedures, including a transition to the use of indirect monetary instruments. Accordingly, a mission comprising Mr. Patrick T. Downes (head - CBD), Mr. Omotunde Johnson (CBD), Ms. Elizabeth Milne (ASD) for the first week only, _____ (consultant), and Miss Amelita R. Concepcion (Staff Assistant) is scheduled to visit Ulaanbatar during the period May 13-27. The terms of reference of the mission are outlined below.

Structure of banking system

The mission will obtain a clear understanding of the structure of the banking system and how the authorities want it to evolve over the medium-term. The authorities have already taken some steps toward modernizing the banking system. Before end-^{September}~~August~~ 1990, the country had a monobanking system with the State Bank responsible for central banking as well as commercial banking. Since ^{October}~~September~~ 1990, the authorities began to

My info on shareholders is from a press report indicating that the

- 2 - bank was set up by the Union of Production &

Services Cooperatives. Hence my suggested

implement the move to a two-tier banking system and open up commercial

banking to competition. Since October 1990, ^{five} ~~three~~ new commercial banks have

been established: Mongol Horshoo, a ~~joint venture~~ cooperative bank with ^{equity}

~~equity participation from the Government~~ ^{participation from} and some state agricultural

cooperatives; the Industry Bank owned by state enterprises; and Mongol

Daatgal (Insurance) Bank, whose largest shareholder (50 percent) is the

Mongol Daatgal Insurance company. The commercial banking activities of the

X State Bank are to be divided between ^{two} ~~three~~ new banks: the Bank for Trade

and Development--popularly known as State Bank of Mongolia (International)--

X that would, inter alia, handle international settlements ^{and} the Bank for

X Investment and Technological Innovation, ^{Two other banks -} and the Agricultural Bank. ^{and the Transportation Bank -}

~~seventh bank - Transportation Bank - is under discussion.~~

have recently opened.

Major issues that will need to be clarified include whether the authorities are heading for a specialized or universal banking system; what, if any, commercial banking activities the State Bank will continue to perform in competition with the commercial banks; and how the authorities plan to open up the banking system for entry by fully private (including foreign-owned) commercial banks.

Of particular importance ^{will} ~~would~~ be the question of specialized versus universal banking. So far the authorities have given the banks names that leave the impression they would be specialized banks. But at a meeting on February 13 at Headquarters, the Minister of Finance and the Governor of the State Bank assured the CBD representatives that at least the commercial

*The Agriculture Bank is negotiating with the "Central" bank to take over the branches of the State Bank.
Certain of*

banks that were to be offshoots of the State Bank would not be specialized banks. The CBD has been emphasizing in its discussions with the Mongolian authorities that, because of its advantages, the countries of Eastern Europe (that are currently implementing banking and financial sector reforms of the sort the Mongolians want) had opted for a universal banking system. In other words, as compared to a specialized banking system, a universal banking system is more conducive to ensuring financial stability by facilitating portfolio diversification and hence not concentrating risk. Maturity transformation (transformation of short-term liabilities ~~of financial institutions~~ into longer-term assets) can also be undertaken with lower liquidity risk to the institutions by virtue of their more diversified deposit base. Universal banking also fosters greater competition among institutions thereby promoting economic efficiency ~~in the use of resources~~ in the provision of financial services to the community; increased savings through higher real interest rates; and more productive investments through more efficient allocation of savings. There are indications that the authorities have been influenced by such arguments and that the law being enacted by the Parliament will permit virtually all the commercial banks to operate as universal banks.

Are all countries adopting?
e.g. Hungary

Banking legislation and supervision

A major focus of the mission ^{will} ~~would~~ be commenting on the banking legislation likely to have been recently enacted by the Mongolian Parliament. It is not known to what extent the authorities have drawn on

X model legislation furnished by CBD late last year. Unfortunately, the legislation has not been made available to the mission because it had not yet been enacted at the time of the ^{STA} ~~EUR~~ mission in late March, and a translation into English is necessary. Key issues for comments and/or discussion will include the role of the central bank; its relations with Parliament and Ministry of Finance; and the nature and functions of banking supervision. The legislation under consideration comprises one law, i.e., a central bank bill. It will be necessary to consider if the central bank legislation is adequate to cover also the regulation and supervision of commercial banking institutions or if there is a need for a second law to cover general banking activities--as is the case in many countries. It is to be noted that comments on the banking law would, of course, be advisory. It would fall to the Mongolian authorities to decide whether the comments raise issues substantial enough to require early amendment of the law; or whether such comments can be handled in the implementation of the law, i.e., through the issuance of regulations.

X Under the monobanking system which existed prior to ^{October} ~~September~~ 1990, commercial banking operations were carried out by branches of the State Bank and overseeing of the branches was done by a department within the Bank. The demand for banking supervision will be decidedly greater under the two-tier system and it is envisaged that the whole gamut of what is entailed would have to be discussed with the authorities. Topics will include prudential regulation, capital adequacy, rules and procedures for licensing of banks, loan classification and loan loss provisioning, and reporting

X procedures that would meet prudential supervision requirements while *at the same time* facilitating monetary analysis. In all these areas, specific suggestions will be made to the authorities that broadly conform to international norms with due regard to the existing institutional framework in Mongolia and its desired evolution over the medium-term. Suggestions will also be made for improving the supervision capability of the State Bank as the central bank.

Monetary and credit operations

Mongolia is just beginning to emerge from its planned-economy status. Hence, interest rates and prices at all levels have been controlled, and aggregate bank credit has been centrally determined and allocated to regional branches of the State Bank to distribute to productive economic units within the framework of the annual economic plan. In addition, there has been some degree of selective credit allocation whereby the State Bank grants credit to encourage the development of new cooperatives in accordance with priorities consistent with the policy aims outlined in the Law on Cooperatives. The State Bank also continues to extend credit to facilitate settlement of intrapublic sector arrears and, in addition, grants credit automatically for the purchase of foreign exchange by enterprises in the context of the foreign exchange allocation plan. Actual credit movements are also affected by seasonality of agricultural financing and losses of enterprises (current asset shortfalls), both of which have necessitated short-term bank financing.

Many policy and operational issues are bound to arise as a result of the introduction of a two-tier banking system; the desire to move to a market based economy involving privatization and substantial increase in private enterprise activity; as well as the intention of shifting from direct credit controls/allocation toward more indirect market-based methods. The mission will discuss conceptual and operational issues of a suitable monetary control framework during its stay with the aim of advising the authorities on possible action for the immediate future.

In particular, it is likely that as a first step the authorities will introduce bank-by-bank credit limits as a natural ^{evolution} ~~outgrowth~~ of its historic policy of working within a global credit program. It would be useful to understand how they intend to coordinate such credit controls with prices and interest rate liberalization; with plans for foreign exchange reserve management; and with attempts to foster competition in the banking sector. If necessary, the mission will explore with the authorities, on a preliminary basis, a possible time frame for phasing out bank-by-bank credit control to be replaced by base-money control. The mission might make a brief presentation of what base-money control means for monetary operations.

Indeed, a presentation on bank supervision might be useful also

The mission ~~would~~ ^{will} also need to ~~find out~~ ^{establish} whether the Mongolian authorities want to continue with selective credit controls. There may, for example, be some fear ^{on their part} that private or state-owned independent banks may not lend in ways that are necessarily optimal from the viewpoint of the development of the country. In addition, the authorities may see

This is a next with market economics

such selective credit controls as more amenable to promoting some social and political objectives. If so, it ~~would~~^{will} be essential for the mission to discuss with the authorities the manner in which they intend to implement future selective credit controls and to try to alert them to the pitfalls of such procedures and hence the need to phase them out as soon as practicable.

X The current and future role of the State Bank in the financing of enterprise losses and intrapublic sector settlement of arrears, and the implications for the monetary operations and profitability of the State Bank, will also be discussed as would be the interest rate reforms that are X to be put in place. Hence, it would be ~~especially~~ necessary to receive some feedback from the Article IV consultation mission that would immediately precede the CBD mission. It is anticipated that that ^{the consultation} mission would, in its policy discussion, argue for the immediate end of automatic central bank credit for the losses and settlement of arrears mentioned above.

The mission will investigate the role that the authorities plan to play in promoting the growth of commercial bank deposits and money market development; central bank refinancing (including rediscounting); and in the introduction of treasury bills or central bank bills. If necessary, the mission will give some preliminary comments to assist the authorities in the early stages of their work. Also to be discussed would be the central X bank's plans for introducing liquidity and cash reserve ratios, both in the context of prudential regulation and as elements in monetary management.

The importance of reporting for monetary policy purposes will also be stressed.

Meetings will be arranged with the commercial banks. An important focus of such meetings would be to explain to the banks the necessity for central bank supervision and regulation including regular reporting to the central bank. There is some indication that the newly created commercial banks do not appreciate the necessity for such supervision. Also important would be constraints on the activities of banks imposed by the new legal and regulatory framework; the implications for ~~industrial and~~ banking competition ~~and activities~~ of the sizable shares of banks held by cooperatives and major enterprises; and the nature and ~~foreseeable~~ evolution of interbank markets and clearing.

Foreign exchange operations

As in other elements of central bank operations, the foreign exchange operations of the State Bank are in transition. The two-tier system would normally mean that commercial banks will also want to engage in foreign exchange operations and that, in the process, an interbank foreign exchange market is likely to emerge. But the authorities appear to prefer to restrict foreign exchange transactions to the ~~Foreign Trade and Development Bank~~ ^{Bank for Trade and Development}. If this is intended to be a monopoly situation, the relationship between the bank and the central bank may need to be clarified. The Article IV consultation mission is also expected to raise the possibility of ~~somehow~~ "legalizing the parallel market in foreign exchange. Currently, foreign exchange is allocated by the State Bank to state foreign trade enterprises and to selected state enterprises in accordance with the foreign exchange

budget. State and private cooperatives are also permitted to use freely their own foreign currency balances held in the State Bank. In August, October and December 1990, there were, in addition, foreign exchange auctions at which state enterprises, cooperatives, and other juridical persons (except budgetary and subsidized organizations), but not individuals, were permitted to bid for foreign exchange supplied by the State Bank which ^{acts} ~~acts~~ as the auctioneer.

Against the background of any policy advice on exchange rate arrangements flowing from the Article IV mission, the CBD mission will explore with the authorities the various technical and operational issues on which they will now have to focus; seek to understand the scope of the authorities' thinking on these issues; and advise them on various aspects of the problems that lie ahead. Among the issues to be discussed would be the role of commercial banks in the allocation of foreign exchange; prudential requirements for foreign exchange operations of commercial banks; and foreign exchange operations and reserves management of the State Bank as the central bank. In this regard, the mission will assess the organization and methods of the department of the central bank that is responsible for official foreign exchange operations.

Technical assistance needs

The mission will make an assessment of the technical assistance needs of the State Bank not only in the above areas but also in others that become

apparent during the course of its work. The assessment will be ^{made} ~~done~~ in light of the ultimate goal of the central bank to modernize every aspect of its organization and its operations. Preliminary indications are that the authorities will indeed request further technical assistance in a number of areas and that they would be immediately concerned with banking supervision; accounting; payment system and related clearing and settlement issues; and certain basic monetary operations.

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OJ:arc/4.17.91



Office Memorandum

To: Mr. McLenaghan

April 19, 1991

From: L. Wolfe *W*

Subject: Multi-topic Mission to Mongolia

I am attaching a copy of the aide-memoire left with the authorities in Ulaanbaatar and also copies of the minutes that were prepared during the mission.

Attachments

cc: Mr. Donovan
Mr. Galbis
Division Chiefs
Mission Members

*Re Wolfe
Thank you
- This is well prepared
and informative.
Let's see
at HQ*

W

4/26

Mr. McLenaghan,

Re your question--see above.
I have not revised the A-M as we do not have any additional information to incorporate.

*LLW
4/30*

OK ✓



Office Memorandum

Mr. Donovan

To: Mr. Galbis

April 15, 1991

From: Richard Hides *4/14*

Subject: Mongolia--Draft for Clearance

Attached please find for your consideration a draft cable to the Minister of Finance of Mongolia regarding Mr. Walton's forthcoming visit. This follow-up mission is being undertaken at the request of the Governor of the State Bank of Mongolia.

Attachment

cc: Mr. McLenaghan
Mr. Donovan
Mr. O'Connor (o.r.)
Mr. Stillson
Mr. Wolfe

*Mr Galbis, (UG advised)
No comments
PL
4/17
DD*

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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 22 A. BAZARKUU
 21 MINISTER OF FINANCE
 20 ULAANBAATAR, MONGOLIA
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MR. EVANS
MR. SAITO

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18 REF: F1/TAS/MGA/MGARWLER.CBL
 17 DURING THE RECENT MULTI-TOPIC STATISTICAL MISSION TO
 18 MONGOLIA, MR. KHUDERCHULUUN, GOVERNOR OF THE STATE BANK
 15 OF MONGOLIA, REQUESTED THAT MR. WALTON RETURN TO COMPLETE
 14 HIS WORK ON THE COMMERCIAL BANKS' BALANCE SHEET, AND TO
 13 PLAN FOR THE INTRODUCTION OF A UNIFIED REPORTING SYSTEM
 12 THAT WOULD PROVIDE INFORMATION NECESSARY FOR MONETARY
 11 ANALYSIS, BALANCE OF PAYMENTS COMPILATION, AND BANK
 10 SUPERVISION. IN ADDITION, MR. WALTON WOULD COMPLETE THE
 9 PREPARATION OF THE BALANCE SHEET FOR THE NEW CENTRAL BANK
 8 TO ENSURE OVERALL CONSISTENCY IN THE PRESENTATION AND
 7 REPORTING OF MONETARY DATA DURING THIS TRANSITIONAL
 6 PERIOD.
 5 I WOULD LIKE TO PROPOSE THAT MR. WALTON VISIT
 4 ULAANBAATAR FOR THREE WEEKS DURING MAY 6-27, 1991. MR.
 3 WALTON'S WORK WOULD BE COORDINATED WITH THE WORK OF THE
 2 ARTICLE IV CONSULTATION MISSION THAT IS SCHEDULED TO
 1 VISIT ULAANBAATAR DURING APRIL 29-MAY 13.

IF REQUIRED INITIAL BELOW

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TELEX NO.:

DRAFTED BY
NAME (TYPE): RWalton:ler

EXT.: 8130

DEPT/DIV: STA/FID1

DATE: 4/15/91

AUTHORIZED BY
NAME (TYPE): Richard Hides

AUTHORIZED BY
NAME (TYPE): John B. McLenaghan

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

F Log _____

SEC. 48 REV. 2
8-14-87

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IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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START TEXT HERE

18 MR. WALTON PLANS TO ARRIVE IN ULAANBAATAR ON MONDAY,
17 MAY 6 ON AIR MONGOLIA FLIGHT 224 FROM BEIJING. I WOULD
16 APPRECIATE IT IF YOU COULD ARRANGE ACCOMODATION FOR MR.
15 WALTON IN THE ULAANBAATAR HOTEL.

14 I WOULD WELCOME YOUR EARLY TELEX CONFIRMATION OF THE
13 TIMING AND OBJECTIVES OF MR. WALTON'S MISSION.

12 REGARDS,

11 MCLENAGHAN

10 DIRECTOR, BUREAU OF STATISTICS

9 INTERFUND

IF REQUIRED
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SEC. 48 REV 2
8-14-87

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Office Memorandum

Mr Wolfe
Given the unavailability
of Mr. Allen, could we
rethink the proposal for
an expert - review.
April 11, 1991
What time frame
should we be
working on?

To: Mr. McLenaghan
From: L. Wolfe *LV*
Subject: Mongolia--Technical Assistance

In the back-to-office report on the recent multi-topic mission to Mongolia, two areas of technical assistance were singled out for immediate follow-up work. The purpose of this memorandum is to expand on the background to these areas, and to propose that action be taken to expedite the next round of assistance.

W. Walton
4/12

Mr. Walton worked closely with the State Bank of Mongolia to establish a monthly balance sheet for the State Bank, something not previously available. The balance sheet will provide the basis for providing data both for publication and for future reporting to the Fund. A draft balance sheet for the commercial banks (seven new banks will be operational within the next few weeks) was also prepared. This return will provide the main foundation of the new reporting system. Notes and definitions for this new return were drafted, and the opportunity was taken to discuss the format, and the importance of providing information, with two of the seven banks.

The Governor of the Central Bank asked specifically if Mr. Walton could return to complete his work on the commercial banks' balance sheet, and to plan for the introduction of a unified reporting system that would provide information necessary for monetary analysis, balance of payments compilation, and bank supervision. With regard to the latter, it will be important to consider fully the contents of the draft central bank law currently under review by the Parliament. 1/ The planned split of the State Bank this month into three entities--the Central Bank and two commercial banks--will also require assistance to complete the preparation of the balance sheet for the new Central Bank, and to ensure overall consistency in the presentation and reporting of monetary data during this transitional period.

The first consultation mission is scheduled to arrive in Ulaanbaatar on April 29 for a two-week period to be followed immediately by a CBD assessment mission on May 13. One of the members of the consultation mission, Ms. Milne, will remain in Ulaanbaatar for the first week of the CBD mission. Given the difficult logistics in Ulaanbaatar, and the need to coordinate with the CBD mission, I would

1/ The mission was unable to obtain a copy of the draft law.

suggest that Mr. Walton arrive on May 6 and leave with the CBD mission on May 27. The Asian Department is strongly supportive of this proposal and concurs with the proposed timing.

The other area in need of immediate assistance is price statistics. As noted in the back-to-office report, there is no statistical information on price movements in Mongolia, despite the recent decision to double most consumer prices and also to allow the development of a private market. During the transition phase to a market economy, it is important that price movements in Mongolia can be assessed; this is particularly so given the likely implementation of a Fund program in the next few months. With this in mind, the mission suggested, and the authorities agreed, that external assistance to calculate an interim price index for Ulaanbaatar be provided as soon as possible. A survey of minimal living standards for 1990 is available and should provide sufficient information for calculating weights, etc. What is needed is expertise in choosing the commodities for inclusion in the index; in specifying the description of the commodities; in collecting the prices in the market; and in index compilation methods. The resulting index would be an interim measure that would suffice until a more detailed household expenditure survey is undertaken and a broader index compiled.

The logistics of stationing an expert in Ulaanbaatar (housing is very difficult to find, etc.) suggest that the most appropriate approach would be to have an expert visit Mongolia for three-to-four-week periods. There would probably be a need for three visits although this number may need to be revised following the first visit of the expert. The visits would be timed to allow the authorities to work on the recommendations of the expert between visits. Finding an expert with the necessary qualifications may not be easy. I do, however, have one possibility in mind. Mr. David Allen, an Australian national, was, for many years, Chief of the Consumer Price Index Division of the Australian Bureau of Statistics (ABS). I understand that he is a consultant and, as such, may be interested in the proposal. I have checked his suitability with Mr. Neil Patterson (currently on secondment from the ABS) who also believes that Mr. Allen would be a good choice. If a decision to proceed is reached, I would be happy to call Mr. Allen to discuss the situation.

cc: Mr. Donovan
Mr. O'Connor (o/r)
Mr. Joyce (o/r)
Mr. Scheuer
Mr. Hides
Mr. Gürgen
Mr. Walton
Ms. Milne (ASD)



Office Memorandum

Mr. Dornica

Mr. Wolfe,

We should go ahead on
Mr. Walton's return visit;
Contacting Mr. Allen
DP.

1
2

April 11, 1991

cc. Mr. McLenaghan

To: Mr. McLenaghan
From: L. Wolfe W
Subject: Mongolia--Technical Assistance

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cc: Mr. Donovan ✓
Mr. O'Connor (o/r)
Mr. Joyce (o/r)
Mr. Scheuer
Mr. Hides
Mr. Gürgen
Mr. Walton
Ms. Milne (ASD)



Office Memorandum

1991 APR 11 PM 5:28

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TO: The Managing Director ^{BUREAU OF ASSISTANCE}
 The Deputy Managing Director ^{IMMEDIATE OFFICE} April 10, 1991

FROM: Teresa Ter-Minassian

SUBJECT: Mongolian People's Republic--Technical Assistance

In the attached memorandum, Mr. Baldet reports on the the follow-up tax mission to Mongolia, March 11-April 1, 1991.

With a rapid deterioration in the economic and financial situation, compounded by recent action to raise wages and salaries to compensate for the doubling of most consumer goods prices, a large fiscal gap is expected for 1991. Despite recent liberalization measures the Mongolian economy is still heavily controlled, which severely contrains the adoption of taxes fully compatible with market mechanisms. However, since the last tax mission's visit in November 1990, the authorities have achieved considerable progress in putting in place an embryonic tax system that should help stem the decline in budget revenue. They fully realize the transitory nature of this system and have agreed to implement the missions's recommendations aiming at correcting its numerous shortcomings and imperfections. Other measures will be introduced as soon as the economy is further liberalized.

The key recommendations to be implemented shortly, include (1) replacing the provisional multiple-rate tariff with a weighted average rate of 13 percent by a uniform tariff rate of 30 percent; (2) halving existing exemptions by restricting their scope to a few socially-sensitive imports. Furthermore, the authorities will replace, in early 1992, the so-called turnover taxes by a coordinated system of domestic indirect taxes comprising an import/manufacturing sales tax and a few selective excises. With regard to instution building, the mission's recommendations focused on improving the efficiency of the newly created Customs Administration Department, including developing import clearance and control procedures and a fraud investigation capability and specifying guidelines for computerization.

The authorities will proceed immediately with the redrafting of the customs and income tax laws, and the preparation of a sales tax along the lines specified in the mission's aide-mémoire. The Minister of Finance has requested furhter FAD assistance in reviewing and finalizing the final drafts prior to their submission to Parliament in the fall.

No management decision is needed.

cc: Mr. Wolfe

Attachment

cc: ASD	RES
ADM (TAU)	STA ✓
ETR	Paris Office
EXR	Geneva Office
INS	Mr. P. Andrews
LEG	

(CIR)

TO: The Managing Director
The Deputy Managing Director

April 10, 1991

FROM: Jacques Baldet

SUBJECT: Mongolian People's Republic--Technical Assistance

A follow-up tax mission headed by myself and comprising Messrs. G. Walton and J. Walsh, both members of the fiscal panel, and Ms. L. Nguyen, Staff Assistant (FAD), visited Ulaanbaatar for three weeks from March 11, 1991. The mission was warmly received. It held extensive discussions with Mr. Bazarkhuu, Minister of Finance and met with Mr. Purevdoj, Deputy Prime Minister and Mr. Gambold, First Deputy Prime Minister. The mission discussed its preliminary conclusions and recommendations and left an extensive aide-mémoire with the authorities. At the request of the authorities, the mission met with members of Parliament, including the Chairman of the Standing Economic Committee of the Great People's Hural, to help clarify a number of tax reform issues.

The mission took place within the context of a rapidly deteriorating economic and financial situation, compounded by recent action to raise wages and salaries to compensate for the doubling of most consumer goods prices. Despite measures to further liberalize prices the Mongolian economy is still subject to numerous planning controls that constrain the adoption of a tax system compatible with market mechanisms.

However, since the last tax mission's visit in November 1990, impressive progress has been achieved in the area of taxation from both policy and administration viewpoints. On the legislative side, the key elements are the adoption of an income tax law effective January 1, 1991, replacing both schedular individual income taxes and a company tax, and of a Customs law enacted on March 1, 1991, together with a provisional tariff schedule. On the administrative side, the Customs Affairs Department, which was established in late October 1990 is now fully operational and is collecting customs duties on commercial and individual imports.

The authorities recognized that the tax system now in place is transitory and that its numerous shortcomings and imperfections need to be corrected. The purpose of this mission was to propose ways to improve the current system to make it more compatible with a market-oriented system. The authorities have clearly stated their intentions to submit a substantial part of the mission's recommendations to Parliament in the immediate future, reserving the right to consider introducing other recommendations as soon as further price and exchange rate liberalization permit.

The mission's recommendations, which the authorities are prepared to implement immediately, include (1) replacing the multiple-rate tariff structure by a uniform tariff rate of 30 percent, comprising a basic 20 percent duty rate, and an additional 10 percent on account of the delayed implementation of a sales tax which has been postponed until early 1992, pending the building up of an adequate administrative capacity; (2) restricting the scope of existing exemptions on imports on a very limited number of goods, i.e. basic foodstuffs; (3) revising the Customs law along the lines suggested by the mission, particularly concerning the valuation provisions; and (4) introducing the Harmonized System for tariff classification purposes. Other key recommendations, which the authorities intend to introduce possibly as early as January 1992, include: (1) replacing the so-called turnover taxes by a coordinated system of domestic indirect taxes comprising an import/manufacturing sales tax and a few selective excises applying to both imports and domestic production; (2) amending the Income Tax law to conform with the internationally accepted definition of taxable income and other mission recommendations with respect to this law; and (3) computerizing customs clearance procedures.

The mission concentrated its technical advice with respect to tax administration on the newly created Customs Affairs Department. Besides conducting an extensive review of the above-mentioned Customs Law especially with regard to the basic provisions governing the functioning of customs services, the mission advised on developing import clearance and control procedures, a fraud investigation capability and basic requirements to introduce computerization.

The mission discussed further technical assistance needs and the following priority areas were identified:

With respect to the proposed sales tax, the authorities agreed to proceed immediately with the drafting of the basic provisions of the Law, as outlined in the mission's aide-memoire, and have requested FAD assistance in reviewing and finalizing the final draft prior to its submission to Parliament in the fall. Similarly, they requested a review of the revised draft Income tax law, once the amendments proposed by the mission have been incorporated.

In the customs area, the authorities have requested further assistance to (1) review the Customs tariff and its revenue impact, once the new rate structure has been introduced; (2) to advise on administrative matters, including the development of procedures for duty drawback and exemptions for exports; and (3) advise on developing and implementing a computerized system for customs clearance procedures.

The mission held further discussions with the UNDP local office regarding possible funding for such assistance. These discussions confirmed that, because of previous overcommitments, direct funding was not readily available. However, UNDP was actively discussing (with UNCTAD and bilateral agencies) alternative means to secure funds for the compute-

rization of Customs to cover hardware and software costs. If such funding were to be obtained, UNDP would be prepared to finance Fund executed technical assistance in customs administration, and possibly in the area of tax administration.

cc: ASD	RES
ADM (TAU)	STA
ETR	Paris Office
EKR	Geneva Office
INS	Mr. P. Andrews
LEG	
Mr. Beveridge	
Mr. Bradshaw	



Office Memorandum

~~Mr. Anderson~~

* MD to 80 p 2.

To: The Deputy Managing Director *Wolfe* April 9, 1991
From: John B. McLenaghan *JBM*
Subject: Mongolia--Back-to-Office Report on Multi-topic Statistical Mission (March 18-April 1, 1991)

Attached for your information is Mr. Wolfe's back-to-office report on the recent multi-topic statistical mission to Mongolia, which was one of the first of a series of technical assistance visits by Fund staff under a phased program developed by the Asian Department in consultation with the Mongolian authorities. The mission assessed the statistical infrastructure in Mongolia and made a number of recommendations on the development of new, and the amendment of existing, collection and compilation procedures consistent with Fund methodologies aimed at developing an integrated set of financial and economic statistics necessary for analysis and policy formulation.

The change in the direction and orientation of the Mongolian economy toward a market economy that occurred in early 1990 has placed the existing statistical infrastructure under increasing strain. The authorities recognize, however, the need to collect, compile, and disseminate macroeconomic data to meet the institutional and structural reforms that have been implemented, or are planned for implementation in the near term. Against this background, the mission worked closely with the authorities to develop methodologies for producing an integrated set of macroeconomic statistics. This work included setting up balance sheets for the State Bank and the newly established commercial banks, using a GFS reporting system for the budget, and assisting in the strengthening of balance of payments reporting. The mission also conducted a training seminar for more than 70 officials. As part of this effort, the mission worked with the authorities to identify statistical technical assistance needs, and preliminary understanding was reached on a strategy for future assistance including the areas of monetary and price statistics where short-term assistance is needed as soon as possible.

During a final meeting, Mr. Bazarkhuu, the Minister of Finance and Governor of the Fund, asked that the mission convey his best wishes to Fund Management. The Minister added that he looked forward to a possible visit by the Managing Director in the near future.

Attachment

cc: Mr. Narvekar
Mr. Tanzi
Mr. Zulu
Mr. Beveridge
Mr. Lanyi
Mr. Andrews



Office Memorandum

To: The Deputy Managing Director

April 9, 1991

From: L. Wolfe *W*

Subject: Back-to-Office Report on Multi-topic Statistical Mission to Mongolia (March 18-April 1, 1991)

At the request of the authorities, a multi-topic statistical mission visited Mongolia during March 18-April 1, 1991. 1/ The main objectives of the mission were to assess the statistical infrastructure in Mongolia in the areas of balance of payments and foreign debt, money and banking, fiscal, and prices and, on the basis of this assessment, to provide recommendations and advice to the authorities on the development of new, or the amendment of existing, collection and compilation procedures consistent with Fund methodologies. In this context, the need for further technical assistance in the short and medium term was also discussed with the authorities. This visit, one of the first in a phased program of technical assistance by Fund staff developed by the Asian Department in consultation with the Mongolian authorities, was timed to precede the first Article IV consultation scheduled to commence on April 29, 1991. 2/

The mission held intensive discussions with the technical staff of the Mongolian State Bank, the Ministry of Finance, and the newly constituted State Statistical Office, and also met with the staff of a number of other government entities. The mission left an aide-mémoire with the authorities and also met to discuss its findings with the Deputy Prime Minister, the Minister of Finance, and the Governor of the State Bank. The authorities were extremely cooperative and provided the mission with information on the sources, coverage, compilation procedures, underlying methodologies, and resource and institutional constraints in the four statistical areas

1/ The mission members were Messrs. Hozoo, Skarzynski, Walton (Consultant), Ms. Milne (ASD), Ms. Diaz-Zelaya (Administrative Assistant), and myself.

2/ As part of its overall technical assistance program, a Fiscal Affairs Department mission was also in Mongolia to follow up on a November 1990 mission and to work with the authorities to prepare a package of quick-yielding tax revenue measures. Immediately following the consultation mission, a Central Banking Department mission is scheduled for May, and the Institute is planning a three-week seminar in Ulaanbaatar on financial programming and planning in mid-July. The World Bank is also planning two visits before the end of June.

noted above. The mission found the authorities to be very interested in data issues (as well as the activities of the Fund generally) and anxious to ensure that as many officials as possible be exposed to such issues. In this context, the mission conducted a one-day training seminar that was attended by more than 70 officials from several ministries and other official entities.

Until recently, the principal focus of the Mongolian statistical system was to provide microeconomic data in support of the five-year development plans. However, the change in the direction and orientation of the Mongolian economy toward a market economy that began in March 1990 has placed the existing statistical system under increasing strain as the speed of institutional and structural change has outdistanced the ability of the statistical infrastructure to keep pace. For example, the monobank system is being replaced by a central bank and a number of commercial banks, some of which have already commenced operations; however, reporting arrangements have not been devised, and the operations of the new commercial banks are, as yet, largely unsupervised by the State Bank. ^{1/} Similarly, the decision in February 1991 to double the prices of a range of consumer goods and the emergence of a free market have resulted in a rapid escalation in the general level of prices, but plans for compiling an index to measure these and subsequent changes in the general price level have not yet been devised by the authorities.

Against this background, the principal focus of the mission's activities was to work with the staff of the individual ministries to provide practical advice concerning the compilation of macroeconomic time series within a comprehensive and integrated statistical database. In this context, the mission strongly emphasized the need to develop a set of analytically sound and integrated financial and economic statistics that would provide the authorities with essential information for analysis and policy formulation, and that would make these statistics available promptly to all policymakers and the public. At the same time, the mission also saw a need to invest heavily in statistical training programs to provide exposure to the underlying methodologies necessary to support the compilation of these macroeconomic data. Finally, the mission stressed the need to implement the draft statistical law (to be considered by Parliament later this year) so that the division of statistical responsibilities between the various ministries is clearly delineated to all concerned parties. It was the mission's perception that the development of the

^{1/} During the mission's visit, a draft central bank law was being discussed by Parliament and was expected to be implemented by early April.

statistical database in Mongolia is currently being undertaken in a vacuum and that, until the law is adopted, the development of an integrated and comprehensive statistical system cannot be implemented.

At the technical level, the mission made significant progress in all areas. In the money and banking area, work proceeded on two fronts. Assistance was provided to the State Bank to develop a monthly balance sheet from the State Bank's records, something not previously available. In conjunction with this work, a draft monthly balance sheet was also prepared for the commercial banks and preliminary discussions with two of the banks were initiated on this proposal. There is a critical need for the Bureau to follow up this work during the next few weeks, particularly in the efforts of the State Bank to collect data from the commercial banks for both supervisory and policy purposes.

In the real sector, there is also an immediate need for assistance in the area of prices. 1/ A limited range of price data is collected annually, but these do not provide a suitable basis for the compilation of a monthly consumer price index. The mission conveyed to the authorities the urgent need to develop an interim measure of this type. Particular assistance is needed in the areas of selecting and specifying the items to be included in the index, the actual pricing of these items and the compilation of the index itself. 2/ The mission suggested (and the authorities agreed) that the Fund explore the possibility of providing some expert help (probably best implemented through several visits to Ulaanbaatar) using assistance from other international organizations or member countries.

The mission's work in the fiscal area focused on assisting the authorities in developing a methodology that would allow existing fiscal data to be presented in accordance with GFS methodology. In addition to recommending a number of changes on classification and coverage issues, the mission encouraged the authorities to close the fiscal accounts within two or three weeks of the end of each year, rather than eight months as at present. There will be a need to

1/ The compilation of the national accounts on an SNA basis is proceeding with assistance from the Asian Statistical Institute, the Asian Development Bank, and the United Nations.

2/ A regular household survey covering 1,000 families has been undertaken to provide information on minimum living standards in Mongolia, and the resulting data appear to provide a basis for calculating weights for an interim index. However, a more comprehensive survey would need to be undertaken in the near term to provide the basis for a more detailed index.

review progress on the implementation of these recommendations after the completion of the 1991 financial year.

In the balance of payments area, the mission encouraged the authorities to incorporate the new customs-based information that will become available from March 1991. A number of suggestions were also made on reclassifying a number of external transactions and on changing the basis for the classification of transactions in accordance with the internationally accepted recommendations of the Balance of Payments Manual. These proposals will provide a basis for improved balance of payments reporting, but the emergence and growth of the private sector and the impact that this sector's activities will have on balance of payments reporting will require further technical assistance, probably toward the end of 1992.

In addition to assessing the existing statistical infrastructure, the mission also assisted the authorities to compile monetary, fiscal, and balance of payments data for 1989 and 1990 in a format that could be used by the Article IV consultation mission scheduled to commence late this month. The authorities were encouraged to complete similar information for the period 1985-1988 before the arrival of the area department mission.

Finally, the mission stressed the need for a harmonized reporting system and the importance of appointing statistical correspondents for IFS and other areas of statistics during the next few months. The authorities indicated a keen interest in providing data to the Fund and were particularly enthusiastic about the eventual publication of Mongolian data in the Fund's statistical publications.

cc: Mr. Narvekar
Mr. Tanzi
Mr. Zulu
Mr. Beveridge
Mr. Lanyi
Mr. Andrews



Office Memorandum

Mr. Dawson
Mr. Wolfe
We should go ahead w
Mr. Waetani return visit
Contacting Mr. Allen
DD
 []
 []
 April 11, 1991
cc - Mr. McLenaghan

To: Mr. McLenaghan
 From: L. Wolfe *W*
 Subject: Mongolia--Technical Assistance

In the back-to-office report on the recent multi-topic mission to Mongolia, two areas of technical assistance were singled out for immediate follow-up work. The purpose of this memorandum is to expand on the background to these areas, and to propose that action be taken to expedite the next round of assistance.

Mr. Walton worked closely with the State Bank of Mongolia to establish a monthly balance sheet for the State Bank, something not previously available. The balance sheet will provide the basis for providing data both for publication and for future reporting to the Fund. A draft balance sheet for the commercial banks (seven new banks will be operational within the next few weeks) was also prepared. This return will provide the main foundation of the new reporting system. Notes and definitions for this new return were drafted, and the opportunity was taken to discuss the format, and the importance of providing information, with two of the seven banks.

The Governor of the Central Bank asked specifically if Mr. Walton could return to complete his work on the commercial banks' balance sheet, and to plan for the introduction of a unified reporting system that would provide information necessary for monetary analysis, balance of payments compilation, and bank supervision. With regard to the latter, it will be important to consider fully the contents of the draft central bank law currently under review by the Parliament. 1/ The planned split of the State Bank this month into three entities--the Central Bank and two commercial banks--will also require assistance to complete the preparation of the balance sheet for the new Central Bank, and to ensure overall consistency in the presentation and reporting of monetary data during this transitional period.

The first consultation mission is scheduled to arrive in Ulaanbaatar on April 29 for a two-week period to be followed immediately by a CBD assessment mission on May 13. One of the members of the consultation mission, Ms. Milne, will remain in Ulaanbaatar for the first week of the CBD mission. Given the difficult logistics in Ulaanbaatar, and the need to coordinate with the CBD mission, I would

1/ The mission was unable to obtain a copy of the draft law.

suggest that Mr. Walton arrive on May 6 and leave with the CBD mission on May 27. The Asian Department is strongly supportive of this proposal and concurs with the proposed timing.

The other area in need of immediate assistance is price statistics. As noted in the back-to-office report, there is no statistical information on price movements in Mongolia, despite the recent decision to double most consumer prices and also to allow the development of a private market. During the transition phase to a market economy, it is important that price movements in Mongolia can be assessed; this is particularly so given the likely implementation of a Fund program in the next few months. With this in mind, the mission suggested, and the authorities agreed, that external assistance to calculate an interim price index for Ulaanbaatar be provided as soon as possible. A survey of minimal living standards for 1990 is available and should provide sufficient information for calculating weights, etc. What is needed is expertise in choosing the commodities for inclusion in the index; in specifying the description of the commodities; in collecting the prices in the market; and in index compilation methods. The resulting index would be an interim measure that would suffice until a more detailed household expenditure survey is undertaken and a broader index compiled.

The logistics of stationing an expert in Ulaanbaatar (housing is very difficult to find, etc.) suggest that the most appropriate approach would be to have an expert visit Mongolia for three-to-four-week periods. There would probably be a need for three visits although this number may need to be revised following the first visit of the expert. The visits would be timed to allow the authorities to work on the recommendations of the expert between visits. Finding an expert with the necessary qualifications may not be easy. I do, however, have one possibility in mind. Mr. David Allen, an Australian national, was, for many years, Chief of the Consumer Price Index Division of the Australian Bureau of Statistics (ABS). I understand that he is a consultant and, as such, may be interested in the proposal. I have checked his suitability with Mr. Neil Patterson (currently on secondment from the ABS) who also believes that Mr. Allen would be a good choice. If a decision to proceed is reached, I would be happy to call Mr. Allen to discuss the situation.

cc: Mr. Donovan ✓
Mr. O'Connor (o/r)
Mr. Joyce (o/r)
Mr. Scheuer
Mr. Hides
Mr. Gürgen
Mr. Walton
Ms. Milne (ASD)



Office Memorandum

To: Mr. Galbis

April 8, 1991

From: L. Wolfe *W*

Subject: Draft Back-to-Office Report on Multi-topic Statistical Mission to Mongolia

I am attaching for your clearance a draft back-to-office report on the recent statistical multi-topic mission to Mongolia. Also attached is a draft cover memorandum from Mr. McLenaghan to Management.

Attachments

cc: ~~Mr. McLenaghan~~
Mr. Donovan

4/9
Mr Galbis,
Just a few minor
comments.

INTERNATIONAL MONETARY FUND

Mr. McLenaghan

April 4, 1991

o: Mr. McLenaghan ✓
Mr. Donovan

Subject: Mongolia

Please see attached, particularly
marked passages.

cc: Mr. O'Connor
Mr. Stillson

Mr. Donovan
we will
leave an
address
every
month for
Woods
James
see
the
memo
needs 4/12/91

Peter L. Joyce

INTERNATIONAL MONETARY FUND

Date.....

TO:
(1) F. Rozwadowski Room.....
(2) M. Hub Room.....
✓(3) P. Skzchevin Room.....

For your information.

FROM

John Lemore

Room 2-416

DELIVER TO: MR. SAITO, ASD

RECEIVED
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Rm 4-320
1991 APR -2 PM 10:25

888854

March 31, 1991

To: Mr. Saito

From: E. Milne *EM*

ORIG: ASD

Subject: Mongolia: Report on the Statistical Mission and Recent developments

Use of Fund Resources

Minister Bazarkhuu in the first meeting of the mission requested information about types of Fund financing and access policy in order to brief the President later in the day. In light of the extremely difficult economic situation, including the virtual cessation of Soviet aid, the Minister indicated that he hoped for Fund financing for 1991 in the order of \$100 million and was clearly disappointed to learn of access limits.

Upon the Minister's return from Moscow he indicated that little progress had been achieved on resolving the outstanding debt with the USSR. He confirmed the authorities' interest in an ESAF arrangement and expressed his wish that the first disbursement could take place during 1991. He indicated that the PFP would be a useful document with which to approach new bilateral donors in order to explain Mongolia's program of transition to a market economy.

In view of the current economic situation (described below) we may also wish to consider whether a first credit tranche drawing might not be appropriate as the ESAF negotiations are taking place. I have not mentioned such a possibility to the authorities.

Statistical Mission

The Statistical mission has made considerable progress in establishing accounts according to Fund requirements and for policy formulation and monitoring purposes. The data of the August mission were updated, where possible, or revised according to the new classifications. I requested that monetary, budget and external accounts be prepared according to the new methodology for the 1985-89 period.

1. Upon arrival, the mission found that State Bank balances were struck only once a year, for the end of the period and were available only with a 4 month lag. Despite the creation of two commercial banks in October 1990, no attempt had been made to require systematic reporting, pending the Parliamentary approval of banking legislation which is being considered currently. It was further learned that some transactions had been misclassified in the accounts that had been prepared for the August mission, for example, some current account deposits of state enterprises in fact are subject to restrictions on use and other represent depreciation funds.

Mr. Walton worked directly with the ledgers of the State Bank and with the principal accountant in order to establish a monthly balance sheet format. He also made some progress in developing report forms for the commercial banks

but additional work in this area is needed. There may be some chance, not yet confirmed, that Mr. Walton might be available later to follow this up. Assuming the State Bank continues the efforts achieved to date and starts producing monthly balance sheets, the basis for monitoring a financial program will have been established.

2. In the budget area, the mission learned that budgets are not closed for up to eight months after the end of the fiscal year. The period of overlap is owing to the lag in finalization of enterprise accounts and the resultant adjustments to transfers and taxes. Enterprise accounts are closed in March/April; the authorities were unable to provide any data on operations of individual enterprises, even for earlier periods.

Mr. Skarzynski worked directly with the Ministry of Finance accountant to develop a methodology that would permit the official statistics to be transformed to GFS acceptable presentation, which is also useful for our work. The authorities were urged to close the budget shortly after the end of the year, although in the event it was found that the size of retroactive adjustments was not large.

3. The balance of payments data were found to be the most reliable of all statistics. Some reclassification of transactions was suggested by Mr. Hoezoo. In 1991, the new customs procedures--in effect since March 1-- appear to be capturing most trade transactions, although there are reports by the FAD mission that Soviet enterprises and residents are not being assessed duties. It was recognized, however, that it would become increasingly difficult to monitor other external transactions from the State Bank payments statistics as other banks are allowed to conduct foreign exchange operations. Follow-up technical assistance was suggested for a later period.

4. Price data are collected only once a year, at end-December, and are available in April. Price indices are simple averages. The mission found, however, that the authorities undertook regular household expenditure surveys that were comprehensive in respect of types of goods and place of purchase. It was considered that this would form a good base for the retail price weights. The authorities agree that prices need to be monitored monthly. Mr. Wolfe is planning to recommend short term technical assistance as soon as possible to train people in price monitoring and calculation of indices. Mr. Wolfe thinks, subject to his front office approval, that such assistance may be available from Australia and could be in place by mid-year.

5. National account data (not part of the terms of reference of the mission) are presently being collected for 1990 and may not be available until May or June. The authorities have transformed the national income data collected under the material balances system to standard national accounts presentation by using the guide provided by the UN. Their methodology has been checked by experts from the UN and the Asian Statistical Institute. For 1990, data are being collected according to both methodologies although material balance information will still be officially used until 1992. The UN is sending an expert to assist in the 1990 data processing for 2-3 weeks in the spring.

6. No written answers to the STA questionnaire were provided.

Recent Economic Developments

The economic situation continues to deteriorate, but the pace is expected to accelerate in the next three months. There is widespread concern among all political parties that food riots may erupt in the summer and democracy will be imperiled. While the MPRP did elect a younger man as head of party, replacing the "other" Orchibat, representatives of the democratic parties are concerned by the recent trips of senior MPRP members to neighboring countries and rumors of "secret" deals for assistance if central control is reestablished.

Economic growth is projected to fall sharply. Many industries are operating at about 50 percent capacity, primarily because of the lack of imported inputs and spare parts. Production is closely inter-related with that of the Soviet Union, to the extent that selected inputs which could have been produced in Mongolia were designated in the past as inputs to be imported. The breakdown in the Soviet distribution system and the shift to convertible currency trade are the principal factors. At present, firms are remaining in operation by drawing down their inventories but as these are depleted, the authorities anticipate widespread plant closings and sharply higher unemployment.

Nevertheless, private sector activity appears to be booming, particularly in the foreign trade sector. An estimated 3,000 private enterprises have been formed in the last two years with most of these having been started since March 1990. The pace of privatization of state assets is expected to pick up once laws, now being considered, on bankruptcy, monopolies and limited partnerships and corporations, are finalized. A stock market is being established and is expected to be in operation at end year. As a first step large companies are going to be broken up in order to create competition. It remains questionable, however, whether most state companies will be "saleable" given the outdated technology and present levels of profitability.

Prices were doubled in February for most retail goods and some price flexibility was introduced, mainly at the wholesale level. Prices for most retail products in the basic consumption basket --accounting for 40 percent of GDP-- remain subject to control.¹

Prices in the "black market" for consumer goods are about twice the level of official prices. Shortages persist despite the use of ration cards for basic necessities. Barter for foodstuff is becoming widespread with factories exchanging consumer goods for flour and meat for their workers. Food supplies are expected to be extremely tight from May as stocks of flour (Mongolia's third main food staple is bread) are expected to run out. This reflects the poor harvest and the inability to obtain the normal imports of Soviet wheat. In addition, farmers are reluctant to supply meat at the officially controlled price, when market prices are twice as high, and the private sector is focusing on herd-building. Meat availabilities are projected to drop substantially even in the free market from late May until the young are

¹ While wages of civil servants were doubled to offset the impact of the price adjustment, wages in "unprofitable" enterprises increased by only about 50 percent.

weaned, in the late summer. The authorities are considering importing meat from China. A USAID assessment team, which left Mongolia last week, is recommending food aid but completing the procedures and arrival of food will take time.

It is difficult to quantify the present stance of domestic financial policies, although it would be safe to say that they are more expansionary. In 1990, net domestic credit increased by 18 per cent, mainly because of a draw down of Government deposits of Tug 568 million. Liquidity (M2) growth accelerated, increasing by 25 per cent.² Control of monetary policy still relies on the annual credit limits given to the branches of the State Bank. However, there are two new banks --the cooperative bank and the industrial bank-- that have become very active. These banks do not yet report to the State Bank and although subject to reserve requirements (as a proportion of required capital) do not appear to be complying either with the capital or reserve requirements. In January 1991, interest rates on loans were raised to 5-9 percent depending on loan maturity (below one year and 5-10 years) and deposits rates were set 4-8 percent for individuals and 3-7 percent for corporations depending on the term; foreign currency deposits remained at 3 and 4 percent. By this action, the negative interest rate spread between loans and deposits were eliminated, although rates remain highly negative in real terms.

Budgetary data are still not available for 1990, since the accounts have not been closed. The technical staff were unwilling in the absence of the Minister to discuss the outcome. However, data on foreign project financing suggest that only a modest effort was made to rationalize spending in 1990. For 1991, the Minister indicated on Saturday March 30, that investment outlays were being halved. Also starting from 1991, investment and associated financing of enterprises would no longer be reflected. (It is not clear whether the one half reduction is in addition to the shift). The revision to the 1991 budget was underway in the last week of the mission. The focus of the revision was only to rebase expenditures and revenues to reflect the new prices and the introduction of the customs law. According to the FAD mission, the yield from import duties, at present exchange rates, can be expected to fall far short of official projections (Tug 30 million compared with Tug 120 million). There is little scope for short term revenue measures that will produce substantial revenues as long as most prices remain effectively controlled. In the final meeting with the Minister, I stressed that he would be unable to find the financing to close the external and associated budget gaps and urged him to take the opportunity afforded in resubmitting the budget to scale back or postpone spending.

The external position is precarious. Foreign exchange reserves, which declined by \$47 million during 1990, are estimated to have fallen by a further \$9 million in the first two months of 1991. The State Bank (International) now claims to be out of foreign exchange and has approached commercial lenders in

² Comparison with 1989 should be done with a caveat since the accounts have been reclassified to take account of deposits subject to restrictions

- 5 -
10: MR SAITO

Europe for short term credits.³

Exports have suffered from the disruptions in the East Bloc trading arrangements, the imposition of customs duties by the USSR and from higher transshipment costs as the Soviets tripled freight rates. However, the Mongolian authorities have also imposed export restrictions on selected agricultural raw materials because of the failure of state farms to meet last year's state orders following the pre-announcement of farmgate price increases from January 1, 1991. The new customs law also provides for duties on exports and trading corporations have stopped exporting pending further discussions with the authorities. The PAD mission has also pushed for the removal of such duties and it appears that they will be rescinded. Exports of meat to the USSR are expected to be stopped at the end of March to ensure domestic supplies.

Imports have been cut, in part as government investment is being halved. However, import costs of oil were substantially higher than anticipated; as a result of the Gulf War the oil import bill was \$3.8 million above projections in the first three months of 1991. This plus imports under the foreign exchange budget which was elaborated in late 1990 -- before the export trend was clear -- is officially projected to lead to a \$242 million trade deficit, although the State Bank is projecting a trade deficit closer to \$300 million.

The exchange rate in the last auction held in December was Tug 61 per US dollars but because of foreign exchange shortages the State Bank has suspended these auctions. The parallel market rate is Tug 65-70 per dollar, although there are unconfirmed reports that the new cooperative bank is illegally offering Tug 90 per dollar. Implicit exchange rates on the street seem to center around Tug 20-30 per dollar (ie when you want to purchase something and pay in dollars). The authorities are planning to devalue the official commercial rate from the present Tug 5.48. Because of the budget problems, the devaluation will be small and the new rate -- rumored to be introduced on April 1, will be Tug 7.2 per dollar.

Soviet financing has virtually ceased except for those goods imported under contracts signed in 1990. Moreover, Mongolia is effectively extending credit to the USSR since the parent plant of the Erdenet copper mine has not been making payments. In the first three months of 1991, a debt of almost \$60 million was accumulated by the Soviet company. While Mongolia technically has the right to sell 50 percent of the output to third parties, in fact the Soviet company exercises its right of first refusal. Some direct sales of copper to Japan are reported to have taken place but the Soviets have apparently blocked its transshipment. There is some speculation that the delay in payments are part of a broader debt strategy of the USSR since it is seeking

³ Short-term borrowing was also undertaken during 1990 but by end year all but \$2.6 million had been repaid. It was not clear to the mission the extent to which reserves had been exhausted since the authorities indicated they meant "excess reserves" and officials of the State Bank were unwilling to disclose the actual level as the Government had been told there were no reserves left. The State Bank also confirmed that there is a strong seasonality to trade, with most imports under the foreign exchange budget being effected early in the year, while exports -- mainly animal byproducts -- increase in the fall.

additional debt servicing this year of TR 47 million, in addition to the scheduled debt service of TR 70 million. Little progress was achieved in the latest round of debt negotiations with the Soviets. The Minister indicated that part of the problem is the uncertainties surrounding Soviet counterparts, and the present internal difficulties make debt forgiveness unlikely. Nevertheless, the Minister indicated that about one-third of the debt (related to the dispute over past prices) is to be set aside (on this issue further clarification is needed--problems in translation). For the remainder, agreement has to be reached on the TR/\$ exchange rate.

Problems have also arisen with joint ventures of other East Bloc countries. A Czechoslovak firm refused to accept shipment of bootliners in 1990 because of its own financing problems and that country is now seeking payment of TR4 million to clear the trade balance under the bilateral agreement of 1990.

Other new donors have been slow in stepping into the vacuum. The UNDP representative is presently on a tour of Nordic countries to try to increase interest. A round table meeting is tentatively envisaged for September in Ulaanbaatar and for February in Geneva. The Japanese are reportedly considering reducing their aid program but direct business contacts seem to be increasing (there is a new country club and golf course being completed outside the city and Japanese have fully booked the hotel in the Il Tengier compound for June).

Article IV mission

The Minister wishes to start negotiations for an ESAF. Hotel reservations are being made starting the 29th of April. They have not yet paid the subscription. I did discuss the new First Deputy Minister of the need to advise the Fund of their acceptance of the quota increase but this will have to be repeated. The Minister wishes to know if a formal invitation has to be sent to the MD for his visit or were the verbal invitations sufficient.

Central Banking mission

There is no need to bring a lawyer from the Fund to review the banking legislation. The draft law has been presented and actively debated by Parliament. Certain provisions--such as the creation of a Board of Governors--was rejected by Parliament. Once it is passed (and it appears to be granting substantial autonomy to the Central Bank), it will not be possible to change the legislation. The Governor did ask for Mr. Walton to come back to finish his work on reporting FORMATS.

(attached table
2 pages)

2 pages

MAIN INDICATORS

1991-96

Est. Projected

	1985	1986	1987	1988	1989	1990	1991	1992	1993
	(in percent change)								
Growth rates									
Real GDP	5.7	8.2	4.4	5.1	4.3	-0.4	-10.0	-2.0	1.0
Agriculture	9.4	5.8	-5.3	2.9	17.9	-7.0			
Industrial	5.4	2.2	2.8	3.7	-11.4	1.8			
Distributions and warehousing	1.9	5.9	9.2	4.6	9.3	5.0			
Nominal GDP	4.7	-0.7	4.3	6.1	4.2	-0.1	140.0	88.0	46.0
Investment									
Personal consumption									
Social consumption									
Prices									
Consumer	0.6	-1.0	0.0	0.0	0.0	0.0	159.0	95.0	55.0
GDP deflator	-1.7	-10.7	-0.7	-1.7	-0.0	0.2	150.0	90.0	45.0
Exports	5.9	-6.4	4.3	4.1					
Imports	2.1	5.5	3.2	1.9					
terms of trade	3.8	-11.9	1.1	2.2	5.0	-15.0	-10.0	-5.0	0.0
Monetary									
domestic credit-1)		3.8	-3.7	4.6	2.6	17.5	90.0	40.0	30.0
domestic liquidity		-0.2	1.2	3.4	1.1	24.7	75.0	55.0	40.0
of which: currency in circulation		7.8	11.4	7.4	10.5	27.8			
	(ratios to GDP)								
Budget									
revenues	52.5	45.8	45.8	45.4	48.9	46.6	36.0	37.0	38.0
expenditures	-59.3	-64.5	-65.5	-65.0	-65.3	-66.0	-47.0	-48.0	-50.0
overall deficit	-6.8	-17.7	-18.7	-19.6	-16.4	-19.4	-11.0	-11.0	-12.0
external financing, net	6.8	17.7	18.7	19.5	14.9	13.8	6.0	7.0	10.0
domestic bank financing, net				-0.1	1.5	5.6	-4.0	3.0	2.0
other							1.0	1.0	0.0
Investment	46.5	45.9	37.0	34.1	24.6	35.0	20.0	23.0	25.0
public sector									
private sector									
Savings									
domestic	14.3	9.7	7.5	5.1	10.6	6.1	6.2	7.6	10.5
foreign	32.2	36.2	29.5	29.0	24.0	29.9	13.8	15.4	14.5
External-2)									
Exports	22.4	25.3	24.3	23.2	22.2	21.3	23.0	32.7	46.2
Imports-3)	54.1	62.8	54.4	51.9	44.7	-48.0	-35.7	-45.2	-57.1
Current account	-32.2	-36.2	-29.5	-29.0	-24.0	-28.9	-13.8	-15.4	-14.5

- 2 -
Table 1: Mongolia: Key Economic Indicators

						est.	projected		
	1985	1986	1987	1988	1989	1990	1991	1992	1993
	(in percent change)								
	(in millions of U.S. dollars)								
Exports	567.1	741.3	816.7	829.2	793.2	507.3	481.9	554.2	637.4
Imports-3)	-1366.0	-1840.0	-1827.0	-1650.1	-1601.4	-1142.7	-750.0	-765.0	-788.0
Current account	-813.4	-1091.5	-990.2	-1033.4	-858.3	-687.6	-290.0	-261.0	-200.0
Overall balance	29.7	22.0	73.9	-2.6	-24.4	-46.8	-40.0	10.0	10.0
Financing gap 5)							123.0	72.0	20.0
Gross international reserves	51.8	73.8	147.7	145.1	142.5	78.4	50.0	60.0	70.0
(in weeks of total imports-3)	2.0	2.1	4.2	4.1	3.9	3.6	3.5	4.1	4.6
External debt									
Debt outstanding-end of period									
CMEA in TR billions	6.4	7.2	7.9	8.6	9.8	10.5	10.9	11.2	11.4
convertible currencies (no \$)						2.8	10.0	0.2	0.2
Debt service-4)	13.0	2.2	3.1	5.6	8.3	13.4

source: Mongolian authorities and staff calculations and projections

- 1) official data adjusted to include government deposits
- 2) all data are transformed for TR to tugrik at official exchange rates
- 3) includes current payments associated with turnkey projects
- 4) as a proportion of exports of goods and services

5) Assumptions: Soviet project aid but no trade aid
 Japan - \$10-15 million
 WB - \$20 million - 1991 = 0
 Korea - ± \$10 million
 ADB - \$20 million - 1991 = 0
 IMF - ESAF at 150% quota - check if this could be 250% - first purchase 1991 @ new quota
 1991 - assumes Soviets pay for their copper

* Expenditures as % of GDP could be reduced if you want to make this more of an adjustment scenario / then reduce the External CIA deficit and lower the financing gap

IO TA

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT
WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

23 HIS EXCELLENCY
 22 AIURZANYN BAZARKHUU
 21 MINISTER OF FINANCE
 20 MINISTRY OF FINANCE
 19 ULAANBAATAR, MONGOLIA

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MR. EVANS
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18 CE/TAS/MGA/MGALAW31.TLX

17 THANK YOU FOR YOUR TELEX OF MARCH 4, 1991 CONFIRMING THAT
 16 ACCOMMODATIONS HAVE BEEN BOOKED FOR THE MULTI-TOPIC
 15 STATISTICAL MISSION AT THE ULAANBAATAR HOTEL.
 14 PLEASE NOTE THAT MR. RICHARD WALTON IS A MEMBER OF THE
 13 STATISTICAL MISSION AND WILL ARRIVE IN ULAANBAATAR ON
 12 MARCH 18. MR. GEOFFREY WALTON AND MR. JAMES WALSH,
 11 CONSULTANTS WITH THE FISCAL AFFAIRS MISSION, WILL ARRIVE
 10 ON MARCH 11, 1991.
 9 REGARDS.
 8 MCLENAGHAN
 7 DIRECTOR, BUREAU OF STATISTICS
 6 INTERFUND

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS TEXT MUST END HERE

A
B
C

TELEX NO.:
 DRAFTED BY NAME (TYPE): **L.A.WOLFE:CH** EXT.: **7502** DEPT/DIV: **STA/CEDD** DATE: **03/05/91**
 AUTHORIZED BY NAME (TYPE): **KEVIN W. O'CONNOR** AUTHORIZED BY NAME (TYPE): **JOHN B. MCLENAGHAN**

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE **

Log _____

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Processed: March 04, 1991 09:47	Sender: (Mongolia)	ORIG: STA CC: MR. E. EVANS ASD



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64111 IMF UW

22 37
DATE: 04 MARCH 1991

ATTN. MCLENAGHAN DIRECTOR BUREAU OF STATISTICS

IN REPLY TO YOUR TELEX FROM 14 FEBRUARY 1991 WE INFORM YOU
THAT WE HAV
MADE RESERVATIONY FOR THE MISSION AT ULAANBAATAR
HOTEL . DOES MR. WALTON ARRIVE ON MARCH 11 1991 WITH WALSH?
LOOK FORWARD TO SEE YOU SOON,

REGARDS,
BAZARKHUU
MINISTER OF FINANCE
64111 IMF UW

241 ULSBK MH

Handwritten:
cc: JM
DD (o.v.)
Advisors
Mr. Joyce / Mr. Walton
Mr. Wolfe (copy)
Mr. McLaughlin / Mr. Skarzynski
Mr. Bill / Mr. Hozzov / Mr. Diaz Zelaya
KW

Stamp: 1991 MAR - 10 11 13



Office Memorandum

*Thank you. This
will be a ...
March 4, 1991*

To: Mr. McLenaghan

From: L. Wolfe W

Subject: Briefing Paper on the Multi-Topic Statistical Mission to the Mongolian People's Republic (March 18-April 1, 1991)

A multi-topic technical cooperation mission consisting of Messrs. Hoesoo, Skarzynski, Walton, Ms. Milne (ASD), Ms. Diaz-Zelaya (Administrative Assistant) and myself is scheduled to visit Ulaanbaatar during the period March 18-April 1, 1991. 1/ The main objectives of the mission are: (1) to undertake a detailed overall assessment of the existing statistical situation (data sources, compilation procedures, coverage, underlying methodologies, resource and institutional constraints, etc.) in the areas of monetary, fiscal, price, balance of payments and foreign debt statistics; (2) to provide recommendations and advice to the authorities on the development of new, or the amendment of existing, collection and compilation procedures consistent with Fund methodologies and with the needs of both the Mongolian authorities and the Fund; (3) to discuss with the authorities a work plan for the further development of the statistical system and possible technical assistance needs, including the use of experts in the short and medium term, taking into account Mongolia's ability to absorb technical assistance; and (4) to discuss with the authorities the establishment of regular, timely, and harmonized statistical reporting arrangements to the Fund, that would serve the needs of the Asian Department (ASD) and the Bureau of Statistics (STA). Circumstances permitting, it may also be possible to hold a one-day training seminar, although a decision to proceed with this will be left until the mission has had a chance to assess the work to be undertaken in Ulaanbaatar.

I. Background

The Republic of Mongolia joined the Fund and the World Bank on February 14, 1991; prior to joining, a membership mission spent two weeks in Ulaanbaatar in August 1990 and subsequently produced the Calculation of Quota paper (EB/CM/Mongolia/90/1; 11/29/1990). During a discussion at the Annual Meetings in September 1990, the Mongolian authorities indicated a strong interest in obtaining technical assistance in statistics as soon as possible. It was agreed that a

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II. Tasks of the Mission

The evolution of the statistical system in Mongolia was based on the infrastructure of a centrally planned economy and was designed around the need to provide detailed planning data for the successive five-year development plans. As a result, a wide range of data are available, often at a very detailed level, to assist in the implementation of the development plans. This is evident in the data included in the membership paper, particularly in the area of production and output statistics. However, the quality of the data, and its relevance for macroeconomic analysis and policy formulation, is uncertain. This problem was explicitly recognized in the membership paper in a number of instances, and was acknowledged by the authorities during recent meetings in Washington. In this context, the mission will assess the statistical situation in Mongolia and advise on the most appropriate means of developing a statistical system that will provide the authorities with a data base necessary for the design, implementation and monitoring of macroeconomic policies and that will be cost effective.

*lot of other
ag -
involve*

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1. Sectoral issues

a. Money and banking

Until recently, Mongolia had a monopolistic banking structure. The State Bank was responsible for both central and commercial banking activities, acted as the treasury, and was the depository of the country's international reserves. The restructuring of the banking system now under way includes the separation of the central and commercial banking functions of the State Bank, and also allows private sector participation in commercial banking operations. In September 1990, two new commercial banks were established and it is expected that additional banks will be created in the near term. The mission intends to review the structure and coverage of the State Bank and other financial institutions in Mongolia in order to ensure that the monetary statistics capture the full range of transactions that pass through the financial sector. The mission will analyze the availability and content of the basic source documents used in the compilation of monetary statistics, including the balance sheets or other accounting data of the State Bank itself, and the report forms used for collecting data by the State Bank from both its own regional branches and the new commercial banks.

*Plan 9
Accounts?
How many
banks by
now?
reports?
Reporting units/
ca. etc?*

The membership mission encountered a number of problems including imbalances between the assets and liabilities of the State Bank, double counting of certain deposit and loan items, and net creditor balances in bilateral clearing accounts when Mongolia, in fact, is a net debtor. These problems will be investigated as part of the wider review of the existing accounting procedures and the appropriateness of the existing classification of assets and liabilities. Finally, and as part of the overall assessment, the possibility of designing a system that serves the needs of the authorities while providing for the timely and regular reporting of money and banking data to the Fund will be investigated.

*And how to
go about it.*

b. Government finance

The existing State Budget in Mongolia consolidates the operations of the Central Government, 3 cities, 18 aimaks, and 351 somons; operations of the state enterprises and the state cooperatives are not included. An important objective of the mission, therefore, will be to initiate the development of procedures aimed at setting up a common, harmonized system incorporating the reporting of fiscal data for all entities in accordance with the Fund's methodology. To this end, the mission will review the national data

How important?

OK with this?

sources and compilation procedures currently used to compile data on fiscal operations, suggest changes in coverage, procedures, etc., and attempt to compile the data for the most recent year. Particular attention will also be given to the possibility of reporting monthly and quarterly data on major fiscal aggregates that could be used for both the operational needs of ASD and publication in IFS.

Within this overall objective, four major topics to be discussed with the authorities include the coverage, basis of recording, timing, and classification of government operations. In relation to coverage, the membership mission noted that there were a number of special funds and accounts (e.g., producer's fund, labor reserve fund, disaster relief fund, contingency reserve account, etc.) that appear to meet the criteria for inclusion in the government finance statistics. Other possible extrabudgetary operations of the government, such as the existence of other entities with separate budgets will also be investigated. As part of this effort, the mission will analyze the coverage of the government sector as reported in the monetary accounts, with the objective of identifying possible inconsistencies. Second, the mission will examine the basis of recording of government operations and, if necessary, attempt to develop a method of adjusting data to a cash (payments) basis. Third, with regard to timing, the membership mission identified recording practices that result in a shifting of the timing of government transactions between fiscal periods. The nature of these practices will be investigated, and the need for adjusting fiscal data will be assessed. Finally, the mission will undertake a detailed review of the classification of revenues and expenditures; regarding the latter, the present accounts do not allow for identification of all capital transactions. An attempt will be made to develop a bridge table between the national budgetary classification and the GFS system. Particular attention will be given to the possibility of financing transactions being treated as above-the-line items in the national reporting system.

c. Balance of payments and external debt

While external transactions' data have historically been reasonably comprehensive, recent steps to liberalize trade practices have resulted in some loss of coverage. The membership mission was able to prepare a provisional consolidated balance of payments statement from data provided by the authorities; in doing so, however, the report highlighted a number of areas where data deficiencies exist. One of the most difficult problems encountered was the valuation of the transferable ruble vis-à-vis the U.S. dollar. Until

recently, the centralization of trade activities was restricted to a few state enterprises, which made it relatively easy to collect foreign transactions; however, the recent decision to allow a larger number of enterprises, state cooperatives and other private sector organizations to participate directly in foreign trade will make the collection of balance of payments transactions more difficult. Similarly, monitoring of capital flows--including those to non-government and other private organizations--in the light of new bilateral and multilateral aid donors will need to be strengthened.

An important objective of the mission will be to document the sources and methods used for the compilation of balance of payments statistics, both for transactions in convertible currencies as well as nonconvertible currencies, in the context of the guidelines contained in the Balance of Payments Manual. As part of this overall assessment, the mission will focus on a number of areas including: (1) problems relating to the coverage and classification of data (for example, the merchandise trade data include bonuses received for compliance with export volume targets; cross-border barter trade with China is excluded, etc.); (2) the lack of a market-based exchange rate permitting the aggregation of transactions in convertible and nonconvertible currencies; and (3) inconsistencies between the balance of payments data and other sets of macroeconomic data,

As noted earlier, the recent decision to expand the number of organizations allowed to engage in foreign trade will require that reporting systems be developed to collect information from these entities. The mission will review with the authorities the need for, and design of, draft report forms for this purpose. As part of this review, the mission will focus on the consistency of the data with the international standards for balance of payments accounting. At the same time, the mission will seek to extend the range of statistics by encouraging the authorities to provide a more detailed analysis of the services account and the capital account. The authorities will also be asked to provide an international investment position table, which is consistent with both the capital account of the balance of payments and data on external debt and financial statistics.

Virtually all of Mongolia's outstanding external debt is with other centrally planned economies, particularly the U.S.S.R. The mission will review the existing data with the authorities and discuss the setting up of a mechanism that can be used to record loans that are likely to be obtained from countries outside the CMEA area.

1/

notes?
what are they?

Other
conclusions?
to be prepared
should be helpful

d. Prices

As a result of the strict controls on basic consumer good prices and the method of calculation of the official price index, the official retail price index has remained virtually unchanged since 1980. At the same time, the prices of a range of consumer goods are known to have increased during this period. The membership mission noted this conflict and cautioned that the official retail price index understated the actual inflation rate; this view was strengthened by the fact that there had been changes in the quality of consumer goods purchased during this period, and that the range of items in the index and the relative weights assigned to them were not known and were thought to be outdated. In this context, the authorities have indicated that they intend to free a wide range of prices, and the availability of reliable and timely data on price movements will be important in the near term. Accordingly, the mission will discuss the underlying methodologies currently used in the compilation of the retail and wholesale indexes paying particular attention to the relevance of the basket of items included in the index compilation, the derivation of the weights used in the index aggregation, and the methods of collection used in obtaining price quotations.

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As part of its assessment and review, the mission will also consider the statistical links between sectors to ensure that the relationships between data series in different sectors are consistent, or that the differences between the corresponding series in different sectors can be explained.

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The mission will discuss with the authorities plans for the establishment of harmonized reporting arrangements to serve the needs of ASD and STA, and will also review the requirements for developing a country page for International Financial Statistics. The designation of appropriate correspondents for each of the main statistical areas will be reviewed with the authorities.

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The mission will leave an aide-mémoire with the authorities outlining its main findings and recommendations. Depending on the outcome of the discussions, a separate mission report may be prepared when the mission returns to Washington.

This briefing paper has been reviewed by the Asian Department.

cc: Mr. Saito
Mr. Donovan (o/r)
STA Advisors
STA Division Chiefs
Ms. Milne

*The mission should also
spend some time on plans
for new statistical institutions
emerged.*



Office Memorandum

M. Donovan/04/

To: Mr. McLenaghan

March 4, 1991

From: L. Wolfe *W*

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cc: Mr. Saito
Mr. Donovan (o/r)
STA Advisors
STA Division Chiefs
Ms. Milne

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Cable Room ID: MC1A322201	Page: 01	Distribution
Processed: March 04, 1991 09:47 Sender: (Mongolia)	ORIG: <u>STA</u> CC: MR. E. EVANS ASD	

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64111 IMF UW

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DATE: 04 MARCH 1991

ATTN. MCLENAGHAN DIRECTOR BUREAN OF STATISTICS

IN REPLY TO YOUR TELEX FROM 14 FEBRUARY 1991 WE INFORM YOU
THAT WE HAV
MADE RESERVATIONY FOR THE MISSION AT ULAANBAATAR
HOTEL . DOES MR. WALTON ARRIVE ON MARCH 11 1991 WITH WALSH?
LOOK FORWARD TO SEE YOU SOON,

REGARDS,
BAZARKHUU
MINISTER OF FINANCE
64111 IMF UW

241 ULSBK MH

cc: Jm
DD (o.r.)
Advisors
Mr. Doyle / Mr. Walton
Mr. Wolfe (to reply)
Mr. McHarfalis / Mr. Skarzynski
Mr. Bill / Mr. Herzog Ms. Dzięzela
KW

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Office Memorandum

Mr. Donovan (44)

To: Mr. O'Connor

March 1, 1991

From: L. Wolfe *W*

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Within this overall objective, four major topics to be discussed with the authorities include the coverage, basis of recording, timing, and classification of government operations. In relation to coverage, the membership mission noted that there were a number of special funds and accounts (e.g., producer's fund, labor reserve fund, disaster relief fund, contingency reserve account, etc.) that appear to meet the criteria for inclusion in the government finance statistics. Other possible extrabudgetary operations of the government, such as the existence of other entities with separate budgets will also be investigated. As part of this effort, the mission will analyze the coverage of the government sector as reported in the monetary accounts, with the objective of identifying possible inconsistencies. Second, the mission will examine the basis of recording of government operations and, if necessary, attempt to develop a method of adjusting data to a cash (payments) basis. Third, with regard to timing, the membership mission identified recording practices that result in a shifting of the timing of government transactions between fiscal periods. The nature of these practices will be investigated, and the need for adjusting fiscal data will be assessed. Finally, the mission will undertake a detailed review of the classification of revenues and expenditures; regarding the latter, the present accounts do not allow for identification of all capital transactions. An attempt will be made to develop a bridge table between the national budgetary classification and the GFS system. Particular attention will be given to the possibility of financing transactions being treated as above-the-line items in the national reporting system.

c. Balance of payments and external debt

While external transactions' data have historically been reasonably comprehensive, recent steps to liberalize trade practices have resulted in some loss of coverage. The membership mission was able to prepare a provisional consolidated balance of payments statement from data provided by the authorities; in doing so, however, the report highlighted a number of areas where data deficiencies exist. One of the most difficult problems encountered was the valuation of the transferable ruble vis-à-vis the U.S. dollar. Until

recently, the centralization of trade activities was restricted to a few state enterprises, which made it relatively easy to collect foreign transactions; however, the recent decision to allow a larger number of enterprises, state cooperatives and other private sector organizations to participate directly in foreign trade will make the collection of balance of payments transactions more difficult. Similarly, monitoring of capital flows--including those to non-government and other private organizations--in the light of new bilateral and multilateral aid donors will need to be strengthened.

An important objective of the mission will be to document the sources and methods used for the compilation of balance of payments statistics, both for transactions in convertible currencies as well as nonconvertible currencies, in the context of the guidelines contained in the Balance of Payments Manual. As part of this overall assessment, the mission will focus on a number of areas including: (1) problems relating to the coverage and classification of data (for example, the merchandise trade data include bonuses received for compliance with export volume targets; cross-border barter trade with China is excluded, etc.); (2) the lack of a market-based exchange rate permitting the aggregation of transactions in convertible and nonconvertible currencies; and (3) inconsistencies between the balance of payments data and other sets of macroeconomic data.

As noted earlier, the recent decision to expand the number of organizations allowed to engage in foreign trade will require that reporting systems be developed to collect information from these entities. The mission will review with the authorities the need for, and design of, draft report forms for this purpose. As part of this review, the mission will focus on the consistency of the data with the international standards for balance of payments accounting. At the same time, the mission will seek to extend the range of statistics by encouraging the authorities to provide a more detailed analysis of the services account and the capital account. The authorities will also be asked to provide an international investment position table, which is consistent with both the capital account of the balance of payments and data on external debt and financial statistics.

Virtually all of Mongolia's outstanding external debt is with other centrally planned economies, particularly the U.S.S.R. The mission will review the existing data with the authorities and discuss the setting up of a mechanism that can be used to record loans that are likely to be obtained from countries outside the CMEA area.

d. Prices

As a result of the strict controls on basic consumer good prices and the method of calculation of the official price index, the official retail price index has remained virtually unchanged since 1980. At the same time, the prices of a range of consumer goods are known to have increased during this period. The membership mission noted this conflict and cautioned that the official retail price index understated the actual inflation rate; this view was strengthened by the fact that there had been changes in the quality of consumer goods purchased during this period, and that the range of items in the index and the relative weights assigned to them were not known and were thought to be outdated. In this context, the authorities have indicated that they intend to free a wide range of prices, and the availability of reliable and timely data on price movements will be important in the near term. Accordingly, the mission will discuss the underlying methodologies currently used in the compilation of the retail and wholesale indexes paying particular attention to the relevance of the basket of items included in the index compilation, the derivation of the weights used in the index aggregation, and the methods of collection used in obtaining price quotations.

e. Intersectoral links

As part of its assessment and review, the mission will also consider the statistical links between sectors to ensure that the relationships between data series in different sectors are consistent, or that the differences between the corresponding series in different sectors can be explained.

3. Reporting arrangements and an IFS page.

The mission will discuss with the authorities plans for the establishment of harmonized reporting arrangements to serve the needs of ASD and STA, and will also review the requirements for developing a country page for International Financial Statistics. The designation of appropriate correspondents for each of the main statistical areas will be reviewed with the authorities.

3. Technical assistance needs

Subject to the results of the assessment of the existing statistical situation in Mongolia, the mission will seek to assist the authorities in establishing a work plan for the provision of technical assistance over the short-to-medium term, consistent with their own

priorities. This will be delineated in the context of the Fund's limitations and competing demands in the area of resources. In this context, the use of consultants financed by external sources (the Japan-Administered Account, for example) will be an important source of assistance.

4. Mission report

The mission will leave an aide-mémoire with the authorities outlining its main findings and recommendations. Depending on the outcome of the discussions, a separate mission report may be prepared when the mission returns to Washington.

This briefing paper has been reviewed by the Asian Department.


cc: Mr. McLenaghan (o/r)
Mr. Saito
Mr. Donovan (o/r) ✓
STA Advisors
STA Division Chiefs
Ms. Milne



Office Memorandum

To: Mr. O'Connor

March 1, 1991

From: Richard Stillson 

Subject: Multi-Topic Statistical Mission to Mongolia-Briefing Paper

It would be useful to add a reference in the money and banking section of the paper on whether the mission will attempt to compile historical monetary accounts and, if this is the case, how the combined monetary authority/commercial banking functions of the State Bank will be treated.

cc: Mr. McLenaghan
Mr. Donovan
Advisors
Division Chiefs



Office Memorandum

To: Mr. O'Connor

February 22, 1991

From: L. Wolfe *W*

Subject: Briefing Note for Mongolia

I am attaching a draft briefing note for the forthcoming multi-topic mission to Mongolia. Also attached is a draft transmittal memorandum to the Asian Department.

Attachments

cc: ~~Mr. McLenaghan~~ (*olv*)
~~Mr. Donovan~~
~~Division Chiefs~~



Office Memorandum

To: Mr. Saito

February 26, 1991

From: *KWOC*
Kevin W. O'Connor

Subject: Multi-Topic Statistical Mission to Mongolia--Briefing Paper

I am attaching a draft briefing paper for the forthcoming multi-topic statistical mission to the Mongolian People's Republic. It would be appreciated if you could arrange for comments to be provided to Mr. Wolfe (ext. 7502) or myself (ext. 7904) by c.o.b., Friday, March 1, 1991.

Attachment

cc: Mr. McLenaghan (o/r)
Mr. Donovan ✓
Advisors
Division Chiefs

To: Mr. McLenaghan

February 22, 1991

From: L. Wolfe

Subject: Briefing Paper on the Multi-Topic Statistical Mission to the Mongolian People's Republic (March 18-April 1, 1991)

A multi-topic technical cooperation mission consisting of Messrs. Høezoo, Skarzynski, Walton, Ms. Milne (ASD), Ms. Diaz-Zelaya (Administrative Assistant) and myself is scheduled to visit Ulaanbaatar during the period March 18-April 1, 1991. 1/ The main objectives of the mission are: (1) to undertake a detailed overall assessment of the existing statistical situation (data sources, compilation procedures, resource and institutional constraints) in the areas of monetary, fiscal, prices, balance of payments and foreign debt statistics; (2) to provide recommendations and advice to the authorities on the development of new, or the amendment of existing, collection and compilation procedures consistent with Fund methodologies and with the needs of both the Mongolian authorities and the Fund; (3) to discuss with the authorities a work plan for the further development of the statistical system and possible technical assistance needs, including the use of experts in the short- and medium-term, taking into account Mongolia's ability to absorb

1/ All members of the mission will arrive in Ulaanbaatar on March 18 and are scheduled to leave on the morning of April 1. My last day in the office will be Wednesday March 13, 1991.

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technical assistance; and (4) to discuss with the authorities the establishment of regular, timely, and harmonized statistical reporting arrangements to the Fund, that would serve the needs of the Asian Department and the Bureau of Statistics. Circumstances permitting, it may also be possible to hold a one-day training seminar although a decision to proceed with this will be left until the mission has had a chance to assess the work to be undertaken in Ulaanbaatar.

I. Background

The Republic of Mongolia joined the Fund and the World Bank on February 14, 1991; prior to joining, a membership mission spent two weeks in Ulaanbaatar in August 1990 and subsequently produced the Calculation of Quota paper (EB/CM/Mongolia/90/1; 11/29/ 1990). During a discussion at the Annual Meetings in September, 1990, the Mongolian authorities indicated a strong interest in obtaining technical assistance in statistics as soon as possible. It was agreed that a

multi-topic mission could be scheduled for early in 1991. 1/
Approval for the mission was received from the authorities earlier
this month and was confirmed at the recent meeting with the Minister
of Finance and the Governor of the State Bank when they were in
Washington to represent Mongolia at the joining ceremonies.

II. Tasks of the Mission

The evolution of the statistical system in Mongolia was based
on the infrastructure of a centrally planned economy and was designed
around the need to provide detailed planning data for the successive
five year development plans. As a result, a wide range of data is
available often at a very detailed level. This is evident in the data
included in the membership paper, particularly in the area of
production and output statistics. However, the quality of the data,
and its relevance for macroeconomic analysis and policy formulation,

1/ A comprehensive and phased program of technical cooperation has
been developed. In November 1990, FAD sent a mission to assess a
draft tax reform bill, to provide medium-term tax policy advice and to
evaluate the need for further technical assistance in the fiscal area.
Following up on this visit, a second FAD mission is planned for early
March 1991 to further assist in customs development and to work with
the authorities to prepare a package of quick-yielding tax revenue
measures. Other missions planned for the next six months include the
first Article IV consultation mission to commence in late April, an
exploratory CBD mission in late May and an INS seminar on financial
programming and policies in mid-July. The World Bank is also planning
one or two visits during the April-June period.

is uncertain. This problem was explicitly recognized in the membership paper in a number of instances, and was acknowledged by the authorities during recent meetings in Washington. In this context, the mission will assess the statistical situation in Mongolia and advise on the most appropriate means of developing a statistical system that will provide the authorities with a data base necessary for the design, implementation and monitoring of macroeconomic policies. This will require an in-depth examination of the scope, coverage, timeliness and underlying methodologies of the main statistical databases mentioned in the following section.

1. Sectoral issues

a. Money and banking

Until recently, Mongolia had a monopolistic banking structure. The State Bank was responsible for both central banking and commercial banking activities, acted as the Treasury, and was the depository of the country's international reserves. The restructuring of the banking system now under review includes the separation of the central and commercial banking functions of the State Bank, and also allows private sector participation in commercial banking operations. In September 1990, two new commercial banks were formed and it is expected that additional banks will be created in the near term. The

mission intends to review the structure and coverage of the State Bank and other financial institutions in Mongolia in order to ensure that the monetary statistics capture the full range of transactions that pass through the financial sector. The mission will analyze the availability and content of the basic source documents used in the compilation of monetary statistics, including the balance sheets or other accounting data of the State Bank itself, and the report forms used for collecting data by the State Bank both from its own regional branches and from the new commercial banks.

The membership mission encountered a number of problems including the fact that the assets of the State Bank were not equal to liabilities, that certain deposit and loan items appeared to be double counted in the balance sheet, and that bilateral clearing accounts showed net creditor positions when Mongolia, in fact, is a net debtor. These problems will be investigated as part of the wider review of the existing accounting procedures and the appropriateness of the existing classification of assets and liabilities. Finally, and as part of the overall assessment, the possibility of designing a system that provides for the early availability and regular reporting of money and banking data to the Fund will be investigated.

b. Government finance

The existing State Budget in Mongolia consolidates the operations of the Central Government, 3 cities, 18 aimaks and 351 somons; operations of the state enterprises and the state cooperatives are not included. An important objective of the mission, therefore, will be to initiate the development of procedures aimed at setting up a common, harmonized system incorporating the reporting of fiscal data for all entities in accordance with the Fund's methodology. To this end, the mission will review the national data sources and compilation procedures currently used to compile data on fiscal operations, suggest changes in coverage, procedures, etc. and attempt to compile the data for the most recent year. Particular attention will also be given to the possibility of reporting monthly and quarterly data on major fiscal aggregates that could be used both for the operational needs of ASD and for publication in IFS.

Within this overall objective, four major topics to be discussed with the authorities include the coverage, basis of recording, timing, and classification of government operations. First, in relation to coverage, the membership mission noted that there were a number of special funds and accounts (e.g. producer's fund, labor reserve fund, disaster relief fund, contingency reserve account etc.) that appear to meet the criteria for inclusion in the

government finance statistics. Other possible extrabudgetary operations of the government, such as the existence of other entities with separate budgets will also be investigated. As part of this effort, the mission will analyze the coverage of the government sector as reported in the monetary accounts, with the objective of identifying possible inconsistencies between fiscal and monetary statistics. Second, the mission will examine the basis of recording of government operations and, if necessary, attempt to develop a method of adjusting data to a cash (payments) basis. Third, with regard to timing, the membership mission identified recording practices that result in a shifting of the timing of government transactions between fiscal periods. The nature of these practices will be investigated, and the need for adjusting fiscal data will be assessed. Finally, the mission will undertake a detailed review of the classification of revenues and expenditures. An attempt will be made to develop a bridge table between the national budgetary classification and the GFS system. Particular attention will be given to the possibility of financing transactions being treated as above the line items in the national reporting system.

c. Balance of payments and external debt

The availability of data on Mongolia's external transactions is limited. The membership mission was able to prepare a provisional

consolidated balance of payments statement from data provided by the authorities; in doing so, however, the report highlighted a number of areas where data were unavailable or where information was sketchy. One of the most difficult problems encountered was the valuation of the transferable ruble vis a vis the U.S. dollar. Until recently, the centralization of trade activities was restricted to a few state enterprises which made it relatively easy to collect foreign transactions; however, the recent decision to allow a larger number of enterprises, state cooperatives and other private sector organizations to participate directly in foreign trade will make the collection of balance of payments transactions more difficult.

An important objective of the mission will be to document the sources and methods used for the compilation of balance of payments statistics, both for transactions in convertible currencies as well as nonconvertible currencies, in the context of the guidelines contained in the Balance of Payments Manual. As part of this overall assessment, the mission will focus on a number of areas including:

(1) problems relating to the coverage and classification of data (for example, the merchandise trade data include bonuses received for compliance with export volume targets; cross-border barter trade with China is excluded, etc.); (2) the lack of a market-based exchange rate permitting the aggregation of transactions in convertible and nonconvertible currencies; and (3) inconsistencies between the balance

of payments data and other sets of macroeconomic data. Attention will also be directed to the discrepancies that exist in the trade data between the shipments and payments statistics.

As noted earlier, the recent decision to expand the number of organizations allowed to engage in foreign trade will require that reporting systems be developed to collect information from these entities. The mission will review with the authorities the need for, and design of, draft report forms for this purpose. As part of this review, the mission will focus on the consistency of the data with the international standards of balance of payments accounting. At the same time, the mission will seek to extend the range of statistics by encouraging the authorities to provide a more detailed analysis of the services account and the capital account. The authorities will also be asked to provide an international investment position table, which is consistent with both the capital account of the balance of payments and data on external debt and financial statistics.

Virtually all of Mongolia's outstanding external debt is with other centrally planned economies, particularly the U.S.S.R. The mission will review the existing data with the authorities and discuss the setting up of a mechanism that can be used to record loans that are likely to be obtained from countries outside the CMEA area.

d. Prices

As a result of the strict control of basic consumer goods' prices and the method of calculation of the official price index, the official retail price index remained virtually unchanged since 1980. At the same time, the prices of a range of consumer goods are known to have increased during this period. The membership mission noted this conflict and cautioned that the official retail price index understated the actual inflation rate; this likelihood was strengthened by the fact that there had been changes in the quality of consumer goods purchased during this period, and that the range of items in the index and the relative weights assigned to them were not known and thought to be out-of-date. In this context, the authorities have indicated that they intend to free a wide range of prices, and the availability of reliable and timely data on price movements will be important in the near term. Accordingly, the mission will discuss the underlying methodologies currently used in the compilation of the retail and wholesale indexes paying particular attention to the relevance of the basket of items included in the index compilation, the derivation of the weights used in the index aggregation, and the methods of collection used in obtaining price quotations.

2. Reporting arrangements and an IFS page

The mission will discuss with the authorities plans for the establishment of harmonized reporting arrangements to serve the needs of ASD and STA, and will also review the requirements for developing a country page for International Financial Statistics. The designation of appropriate correspondents for each of the main statistical areas will be reviewed with the authorities.

3. Technical assistance needs

Subject to the results of the assessment of the existing statistical situation in Mongolia, the mission will seek to assist the authorities in establishing a work plan for the provision of technical assistance over the short to medium term, consistent with their own priorities. This will be delineated in the context of the Fund's limitations and competing demands in the area of resources. In this context, the use of consultants financed by external sources (the Japan-Administered Account, for example), will be an important source of assistance.

4. Mission report

The mission will leave an aide-mémoire with the authorities outlining its main findings and recommendations. Depending on the outcome of the discussions, a separate mission report may be prepared when the mission returns to Washington.

This briefing paper has been reviewed by the Asian Department.

cc: Mr. Saito
Mr. Donovan
STA Advisors
STA Division Chiefs
Ms. Milne



Office Memorandum

Mr. Donovan

To: Mr. Wolfe

February 21, 1991

From: C.A. Patel

Subject: Mongolia -- Multi-Topic Statistical Mission

We currently have no real sector data on Mongolia in our data files except for population data. As such, it would be appreciated if you could try to obtain the following indicators (which are essentially the same as those requested from the forthcoming mission to Albania):

Prices

Indices of agricultural procurement, wholesale industrial, and consumer prices.

Output

Gross and net value of output for agriculture, industry, construction, transport and communications, and commerce. Both current and constant (or comparable) price data would be appreciated, if available.

Employment and earnings

Total employment, as well as employment by sector and ownership system (state, collective, and private). Average wage data by sector and ownership system would also be useful, as would any household survey statistics on patterns of income and expenditure.

Foreign trade

Overall values, volume, and prices of exports and imports. The exchange rates at which these transactions take place are also important. For DOTS, it would be useful to have information on exports and imports by partner country.

National accounts

Income and expenditure accounts, both on an MPS basis (national income, and national income utilized), and on an SNA basis (GDP by industry and expenditure categories). For MPS data, it would be particularly useful to have data on foreign trade in domestic prices, losses, and the overall

statistical discrepancy, as these data are customarily omitted from MPS expenditure statistics. Translation keys used by the authorities in moving between MPS and SNA national accounts estimates (e.g. going from national income to GDP) would also be helpful, as would any existing input-output tables. Data should be available in both current and constant (comparable) prices.

Given that there are few published statistical publications from Mongolia in the joint library to draw upon, it is essential that the above series be requested as far back as they are available. Methodological information is equally important.

This is quite a lengthy list of requests, and I realize that your time will be limited. I nonetheless appreciate your willingness to investigate the availability of the series noted above.

cc: Mr. McLenaghan (o/r)
Mr. Donovan



Office Memorandum

To: Mr. Gill
Mr. McLoughlin
Mr. Patel
Mr. Stillson

February 20, 1991

From: L. Wolfe *W*

Subject: Multi-Topic Mission to Mongolia

A statistical multi-topic mission is scheduled to visit Mongolia during the last two weeks of March. Please let me know if there are any statistical issues that you would like me to raise with the authorities by c.o.b., Thursday, February 21, 1991.

cc: Mr. McLenaghan (o/r)
Mr. Donovan
Advisors

INTERNATIONAL MONETARY FUND

MCLLENAGHAN, John B.
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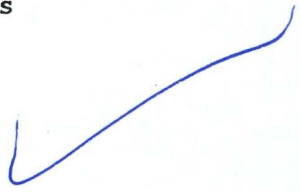
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PRESS RELEASE NO. 91/6

FOR IMMEDIATE RELEASE
February 14, 1991

The Mongolian People's Republic today became a member of the International Monetary Fund. The IMF's Articles of Agreement were signed on behalf of Mongolia by Mr. Aiurzanyin Bazarkhuu, Minister of Finance of the Mongolian People's Republic. Mongolia's quota in the IMF is SDR 25 million (about US\$36 million).

With the admission of Mongolia, the membership of the IMF now totals 155 countries. The total of members' quotas in the IMF is SDR 91,127.6 million (about US\$132,135.0 million).





Office Memorandum

February 13, 1991

MEMORANDUM FOR FILES

Subject: Meeting with Mongolian Delegation

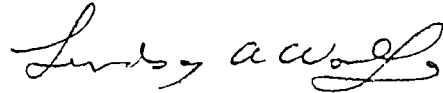
I attended a meeting this morning chaired by the Asian Department for the visiting delegation from Mongolia who are in Washington to sign the Articles of Agreement with the Fund and the Bank. The purpose of the meeting was to discuss the technical assistance arrangements in place for Mongolia for the next six months. Present at the meeting were representatives from FAD (Mr. Baldet), CBD (Mr. Downes), INS (Mr. Otani) and ASD (Mr. Saito and Ms. Milne). The Mongolian delegation included the Minister of Finance (Mr. Bazarkhuu), the Governor of the State Bank (Mr. Khuderchuluun), and two other officials from the Mongolian Embassy in Washington.

During the ensuing discussion, it was agreed that a FAD mission on tax and customs revenue would spend three weeks in Ulaanbaatar commencing March 18. The mission would consist of two experts with Mr. Baldet joining the mission for the latter week or two. This mission was a follow-up visit to the November 1990 FAD trip.

The STA multi-topic mission is scheduled for two weeks commencing March 18; the authorities did not see any problems with the overlap of the FAD and STA missions. I took the opportunity to explain the objectives of the mission to the delegation and they were very supportive. It was also noted that the timing of the mission should assist the Article IV Consultation tentatively scheduled for April 29, 1991. Mr. Downes explained that CBD was planning a mission in early May to review the situation in the banking area. It would be useful if the authorities could send copies of the new banking legislation now being discussed in draft form by the Mongolian Parliament. Finally, the INS confirmed the three-week seminar for the middle of July on Financial Programming and Policies.

In the area of statistics, the Minister and the Governor both reiterated the need for statistics that would assist the

authorities in the transition from a centrally planned economy to one based on market forces. They noted the difficulty of collecting and publishing data in a centrally planned environment, in particular in those cases where the data and the published objectives of the country were dissimilar.



Lindsay A Wolfe
Country Economic Data Division

cc: Mr. McLenaghan (o/r)
Mr. Donovan
Advisors
Division Chiefs

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IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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MR. EVANS

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I REFER TO MY TELEX OF JANUARY 18, 1991 PROPOSING THAT A BUREAU OF STATISTICS MULTI-TOPIC STATISTICAL TECHNICAL ASSISTANCE MISSION VISIT ULAANBAATAR DURING THE LAST TWO WEEKS OF MARCH. FURTHER TO YOUR TELEX CONFIRMING THE TIMING AND OBJECTIVES OF THE PROPOSED MISSION, TRANSPORTATION ARRANGEMENTS HAVE BEEN MADE FOR THE MISSION TO ARRIVE IN ULAANBAATAR ON MONDAY, MARCH 18 ON AIR MONGOLIA FLIGHT 224 FROM BEIJING. THE MISSION WOULD BE OR TWO WEEKS AND WOULD LEAVE FOR WASHINGTON VIA BEIJING ON APRIL 1.

I WOULD APPRECIATE IT IF YOU COULD ARRANGE ACCOMMODATION FOR THE MISSION IN THE ULAANBAATAR HOTEL. THERE WILL BE SIX MISSION MEMBERS AND RESERVATIONS SHOULD BE MADE FOR FIVE SINGLE ROOMS AND ONE SUITE. THE MISSION WILL BE LED BY MR. LINDSAY WOLFE AND WILL INCLUDE MS. MILNE, MS. DIAZ ZELAYA, MR. HOEZOO, MR. SKARZYNSKI, AND MR. WALTON.

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Donal W. Donovan

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IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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MR. EVANS
MR. SAITO

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18 DURING HIS RECENT VISIT TO WASHINGTON, MR. DANZAN (DEPUTY
17 CHAIRMAN OF THE STATE BANK OF THE MONGOLIAN PEOPLE'S
16 REPUBLIC), AND I DISCUSSED THE POSSIBILITY OF SENDING A
15 FUND MISSION TO MONGOLIA TO PROVIDE ASSISTANCE IN
14 STATISTICS. AT THAT TIME, MR. DANZAN NOTED THAT THE
13 AUTHORITIES WERE ANXIOUS TO DEVELOP FURTHER THE
12 STATISTICAL DATABASE IN ACCORDANCE WITH INTERNATIONAL
11 STANDARDS AND INDICATED THAT THE PROVISION OF FUND ADVICE
10 IN A NUMBER OF AREAS WOULD BE EXTREMELY BENEFICIAL. IT
9 WAS AGREED THAT MARCH 1991 WOULD BE THE MOST APPROPRIATE
8 TIMING FOR THE MISSION.
7 FURTHER TO THAT MEETING, I WOULD LIKE TO PROPOSE THAT A
6 MULTI-TOPIC MISSION VISIT ULAANBAATAR DURING THE LAST TWO
5 WEEKS OF MARCH. THE MISSION WOULD BE HEADED BY MR.
4 LINDSAY WOLFE, CHIEF OF THE COUNTRY ECONOMIC DATA
3 DIVISION OF THE BUREAU OF STATISTICS, AND WOULD INCLUDE
2 EXPERTS FROM THE BUREAU IN MONETARY, FISCAL, BALANCE OF
1 PAYMENTS, AND FOREIGN DEBT STATISTICS. A MEMBER OF THE

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V.G. DRAFTED BY NAME (TYPE) LAWOLFE:RB 1/18/91

EXT 7502 DEPT DIV. STA/CED DATE: 1/18/9

W AUTHORIZED BY NAME (TYPE) L. A. WOLFE

JOHN B. MCLENAGHAN
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ASIAN DEPARTMENT (MS. ELIZABETH MILNE) WOULD ALSO PARTICIPATE IN THE MISSION. THE PRIMARY OBJECTIVES OF THE MISSION WOULD BE (1) TO UNDERTAKE A DETAILED ASSESSMENT OF THE EXISTING STATISTICAL SITUATION IN MONGOLIA (DATA SOURCES, COMPILATION PROCEDURES, RESOURCE AND INSTITUTIONAL CONSTRAINTS) IN THE ABOVE AREAS; (2) ON THE BASIS OF THIS ASSESSMENT, TO PROVIDE RECOMMENDATIONS AND ADVICE TO THE AUTHORITIES ON THE DEVELOPMENT OF NEW, OR THE AMENDMENT OF EXISTING COMPILATION PROCEDURES CONSISTENT WITH FUND METHODOLOGIES THAT WOULD SERVE THE NEEDS OF THE MONGOLIAN AUTHORITIES AND THE FUND; (3) IN THE LIGHT OF MONGOLIA'S ABILITY TO ABSORB TECHNICAL ASSISTANCE, TO DISCUSS WITH THE AUTHORITIES A WORK PLAN FOR THE FURTHER DEVELOPMENT OF THE STATISTICAL SYSTEM USING FUND ASSISTANCE INCLUDING THE USE OF EXPERTS IN THE SHORT AND MEDIUM TERM; AND (4) TO DISCUSS WITH THE AUTHORITIES THE GROUNDWORK FOR ESTABLISHING REGULAR AND TIMELY REPORTING ARRANGEMENTS THAT WOULD SERVE THE

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18 STATISTICAL REQUIREMENTS OF THE FUND, INCLUDING THE ASIAN
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 16 RESOURCE CONSTRAINTS, IT MIGHT ALSO BE POSSIBLE TO
 15 UNDERTAKE AN ASSESSMENT OF THE POSSIBILITY OF PROVIDING
 14 SHORT-TERM ASSISTANCE TO ESTABLISH A TEMPORARY MECHANISM
 13 FOR MEASURING MARKET PRICE MOVEMENTS, AND TO SCHEDULE A
 12 ONE-DAY TRAINING SEMINAR. THE SEMINAR WOULD PROVIDE AN
 11 OVERVIEW OF THE MAJOR METHODOLOGICAL PRINCIPLES AND
 10 CONCEPTS UNDERLYING THE COMPILATION OF DATA IN THE
 9 FISCAL, MONETARY, AND BALANCE OF PAYMENTS AND FOREIGN DEBT
 8 AREAS FOR OFFICIALS WORKING IN THE STATE BANK AND OTHER
 7 STATISTICAL AGENCIES. ANY DECISION TO PROCEED WITH THE
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 5 A CHANCE TO ASSESS THE WORKLOAD SITUATION IN ULAANBAATAR
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MISSION WOULD REVIEW THE EXISTING ACCOUNTING PROCEDURES OF THE STATE BANK INCLUDING THE SECTORAL CLASSIFICATION OF ASSETS AND LIABILITIES, AND THE VALUATION OF FINANCIAL INSTRUMENTS. THE FINANCIAL REFORMS INITIATED BY THE AUTHORITIES TO SEPARATE THE CENTRAL BANKING FUNCTION FROM THE COMMERCIAL BANKING FUNCTION OF THE STATE BANK WILL REQUIRE THE REPLACEMENT OF THE EXISTING ACCOUNTING PLAN SYSTEM. THE MISSION WOULD DISCUSS THE IMPLICATION OF THE FINANCIAL REFORMS FOR COMPILING MONETARY DATA. FOR FISCAL DATA, THE MISSION WOULD REVIEW THE INSTITUTIONAL STRUCTURE OF THE PUBLIC SECTOR (INCLUDING THE SEPARATION OF CENTRAL GOVERNMENT AND ENTERPRISE ACCOUNTS), THE CLASSIFICATION OF REVENUES AND GRANTS, EXPENDITURES, AND OF FINANCING AND DEBT ITEMS. THE RELEVANT RECOMMENDATIONS OF THE RECENT FUND MISSION TO STUDY THE AUTHORITIES' TAX REFORM PROPOSALS WOULD ALSO BE CONSIDERED AS PART OF THIS REVIEW. FOR BALANCE OF PAYMENTS AND FOREIGN DEBT DATA, THE MISSION WOULD REVIEW

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THE SOURCES AND METHODOLOGIES FOR COMPILING DATA ON TRADE FLOWS, SERVICE RECEIPTS AND PAYMENTS, CAPITAL TRANSACTIONS AND FOREIGN DEBT AND THE DEBT SERVICE. PARTICULAR EMPHASIS WOULD BE FOCUSED ON ESTABLISHING A SYSTEM FOR RECORDING AND MONITORING BORROWING AND DIRECT INVESTMENT FROM ABROAD.

I WOULD WELCOME YOUR EARLY TELEX REACTION TO THE TENTATIVE SCHEDULING OF THE PROPOSED MISSION AND WOULD APPRECIATE ANY COMMENTS YOU MAY HAVE ON ITS OBJECTIVES. ONCE THE TIMING IS AGREED, THE PRECISE DATES OF THE MISSION WILL BE SENT TO YOU FOR APPROVAL. IN ORDER TO ASSIST IN THE MISSION'S WORK IN MONGOLIA, IT WOULD BE USEFUL IF BACKGROUND INFORMATION ON THE THREE AREAS OF INTEREST COULD BE MADE AVAILABLE TO THE MISSION PRIOR TO ARRIVAL IN ULAANBAATAR. IN THIS CONTEXT, I WILL SHORTLY SEND YOU A QUESTIONNAIRE OUTLINING THOSE AREAS WHERE ADDITIONAL INFORMATION WILL BE NEEDED.

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MCLLENAGHAN

DIRECTOR

BUREAU OF STATISTICS

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Office Memorandum

2/5

To: Ms. Koenig
From: Vicente Galbis V.G.
Subject: Draft Telex to Mongolia

January 17, 1991

A multi-topic statistical technical assistance mission is scheduled to visit Ulaanbaatar in the second half of March 1991. I am attaching a draft telex that will be sent to the Mongolian authorities outlining the objectives of the mission. I would appreciate it if you could send any comments you may have on the draft to Mr. Lindsay Wolfe (ext. 7502) by noon, January 18, 1991.

Attachment

cc: Mr. McLenaghan
Mr. Donovan (o/r)
CBD
FAD
INS

January 17, 1990

MR. BAZARKHUU

During his recent visit to Washington, Mr. Danzan (Deputy Chairman of the State Bank of the Mongolian People's Republic), and I discussed the possibility of sending a Fund mission to Mongolia to provide assistance in statistics. At that time, Mr. Danzan noted that the authorities were anxious to develop further the statistical database in accordance with international standards and indicated that the provision of Fund advice in a number of areas would be extremely beneficial. It was agreed that March 1991 would be the most appropriate timing for the mission.

Further to that meeting, I would like to propose that a multi-topic mission visit Ulaanbaatar during the last two weeks of March. The mission would be headed by Mr. Lindsay Wolfe, Chief of the Country Economic Data Division of the Bureau of Statistics, and would include experts from the Bureau in monetary, fiscal, balance of payments, and foreign debt statistics. A member of the Asian Department (Ms. Elizabeth Milne) would also participate in the mission. The primary objectives of the mission would be (1) to undertake a detailed assessment of the existing statistical situation in Mongolia (data sources, compilation procedures, resource and institutional constraints) in the above areas; (2) on the basis of this assessment, to provide recommendations and advice to the authorities on the development of new, or the amendment of existing compilation procedures consistent with Fund methodologies that would serve the needs of the Mongolian authorities and the Fund; (3) in the light of Mongolia's ability to absorb technical assistance, to discuss with the authorities a work plan

for the further development of the statistical system using Fund assistance including the use of experts in the short and medium term; and (4) to discuss with the authorities the groundwork for establishing regular and timely reporting arrangements that would serve the statistical requirements of the Fund, including the Asian Department and the Bureau of Statistics. Subject to resource constraints, it might also be possible to undertake an assessment of the possibility of providing short-term assistance to establish a temporary mechanism for measuring market price movements, and to schedule a one-day training seminar. The seminar would provide an overview of the major methodological principles and concepts underlying the compilation of data in the fiscal, monetary and balance of payments and foreign debt areas for officials working in the State Bank and other statistical agencies. Any decision to proceed with the seminar, however would be best left until the mission has a chance to assess the workload situation in Ulaanbaatar and discuss the proposal with the authorities.

An important part of the mission's work would be to review in some depth the methodologies underlying the three main statistical areas. For monetary data, the mission would review the existing accounting procedures of the State Bank including the sectoral classification of assets and liabilities, and the valuation of financial instruments. The financial reforms initiated by the authorities to separate the central banking function from the commercial banking function of the State Bank will require the replacement of the existing accounting plan system. The mission would discuss the implication of the financial reforms for compiling monetary

data. For fiscal data, the mission would review the institutional structure of the public sector (including the separation of central government and enterprise accounts), the classification of revenues and grants, expenditures, and of financing and debt items. The relevant recommendations of the recent Fund mission to study the authorities' tax reform proposals would also be considered as part of this review. For balance of payments and foreign debt data, the mission would review the sources and methodologies for compiling data on trade flows, service receipts and payments, capital transactions and foreign debt and the debt service. Particular emphasis would be focused on establishing a system for recording and monitoring borrowing and direct investment from abroad.

I would welcome your early telex reaction to the tentative scheduling of the proposed mission and would appreciate any comments you may have on its objectives. Once the timing is agreed, the precise dates of the mission will be sent to you for approval. In order to assist in the mission's work in Mongolia, it would be useful if background information on the three areas of interest could be made available to the mission prior to arrival in Ulaanbaatar. In this context, I will shortly send you a questionnaire outlining those areas where additional information will be needed.

REGARDS

MCLLENAGHAN

DIRECTOR

BUREAU OF STATISTICS

INTERFUND

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INTERNATIONAL MONETARY FUND

January 11, 1991

Mr. Wolfe:

I attach a copy of the draft questionnaire (Mongolia), prepared by Mr. Hides and Mr. Sukachevin, that we have today passed informally to ASD for comments by the desk economist. We expect comments early next week, after which we will pass the questionnaire to you for preparation of the letter and the formal request for comments to ASD.

cc: Mr. McLenaghan
Mr. Donovan (o.r.)
Mr. O'Connor


Peter L. Joyce

Mr. Donovan

Draft:PSukachevin:PLJoyce:ler:1/11/91

ATTACHMENT

INTERNATIONAL MONETARY FUND
Bureau of Statistics

MONGOLIAN PEOPLE'S REPUBLIC

March 1991 Multi-Topic Mission in Statistics

Questionnaire

I. Please find attached a set of the Appendix tables that were included in the IMF membership paper that was prepared following the Fund mission to Mongolia in August 1990. The tables contain basic data provided by the Mongolian authorities and estimates and calculations made by the IMF staff. Please review, revise, and update the basic data in these tables. It would be helpful if the updating of the tables could include all available data, and official estimates and forecasts, for 1990.

II. Exchange rates and exchange system

Please correct any errors in the statements below on exchange rates and the exchange system and provide the information requested together with any other information that you consider might be helpful:

1. Nonconvertible currencies. Mongolia, as a CMEA member, effects transactions with other member countries in transferable rubles through the International Bank for Economic Corporation (IBEC).

The exchange rate for commercial transactions has been fixed at Tug 4.444 per transferable ruble since 1963. A noncommercial rate of Tug 6.69 per transferable ruble is used for a modest amount of international transactions.

Please explain whether the rate of exchange of the tugrik against the transferable ruble was set according to the official gold content of both currencies. Was the relationship between domestic and CMEA prices of traded goods taken into account when this rate was set? Furthermore, please explain why the official tugrik/transferable ruble rate has remained unchanged since 1963.

2. Convertible currencies. Prior to 1973, the tugrik was fixed at Tug 4 per U.S. dollar. From 1973 to July 1990, the commercial rate of exchange for the dollar was based, in principle, on the cross-rate between the official tugrik transferable ruble rate and the IBEC transferable ruble/dollar rate. However, adjustments to changes in the transferable ruble/dollar rate were not automatically adopted. The tugrik/dollar rate was adjusted in line with the transferable ruble/dollar rate only when this would result in an increase in the tugrik value of convertible currency international reserves holdings; otherwise the rate remain unchanged. This suggests that there were, at times, split cross rates. Since July 1990, the authorities have set, each month, a

base rate for the tugrik in terms of the U.S. dollar. In July 1990, the base rate was in terms of Tug 5.63 per dollar.

Please explain in detail the procedure for determining the base rate and the monthly adjustment of the tugrik/dollar rate. Please describe the methodology used for determining the rate of exchange of the tugrik against convertible currencies other than the U.S. dollar since July 1990. Please describe the types of transactions that took place at the commercial rate, and provide data on the volume of transactions that took place at the commercial rate.

In 1988, Mongolia introduced a noncommercial rate of Tug 20 per U.S. dollar. Please explain how this noncommercial rate was calculated. Please describe the types of transactions effected at the noncommercial rate and provide data on the volume of transactions that took place at the noncommercial rate.

On August 30, 1990, an officially sanctioned exchange auction among state enterprises and cooperatives and private cooperatives was held. Please explain in detail the mechanism of this exchange auction and describe the types of transactions effected at the auction rate. Also, please provide data on the volume of transactions that takes place through the auction.

3. For all exchange rates described in (1) and (2) above, please provide monthly data starting from January 1980.

4. Please describe any changes in the exchange system (including procedures for licensing imports, allocating foreign exchange, and tax rates applying to imports and exports) that have taken place since August 1990.

III. International liquidity

1. Please provide monthly data on official gold holdings in troy ounces starting January 1980; please also provide data on the national valuation of gold holdings in tugrik, and an explanation of how the official price of gold is determined.

2. Please describe the procedures used to value the different types of foreign assets and liabilities. In doing so, please address the following issues: (i) are foreign transactions recorded in the books of the State Bank at current exchange rates or historical accounting rates? (ii) which exchange rates are used to convert foreign balances into tugrik? and (iii) where are the revaluation accounts recorded in the balance sheet of the State Bank.

3. Please provide monthly data, starting January 1980, for official foreign exchange reserves, in convertible and nonconvertible currencies.

IV. Financial institutions

The mission would like to review data on the balance sheet of the State Bank that were supplied to the Fund membership mission in August 1990 and discuss the following issues:

1. The mission would like to obtain information on the recent proposals for financial reform, including: (i) the plan for the separation of the commercial banking from the central banking functions of the State Bank and the establishment of a separate entity for bank supervision; (ii) the status of the two new commercial banks; and (iii) proposals for the development of money and stock markets, expansion and improvement in the system of check clearing, and development of instruments of indirect monetary management. The mission would also like to review any new plan of accounts that is related to the financial reform.

2. Please provide information on the present accounting practices of the central banking and commercial banking functions of the State Bank, as well as the two newly created commercial banks.

3. Please provide recent end-of-month balance sheets or financial statements for each of the two newly created commercial banks and of the State Bank.

4. The mission would like to discuss the sectorization of the economy employed for purposes of monetary statistics and its linkages to the sectorization employed in other areas of statistics, particularly balance of payments and government finance statistics. In particular, the mission would like to obtain clarification on the distinction between resident and nonresident accounts (as compared to distinction between domestic and foreign currency accounts) and between central government and public enterprise accounts.

5. The mission would like to discuss the classification of instruments employed for purposes of monetary statistics. In particular, please describe any problems of classification of accounts resulting from the transition to a market oriented financial system. Are there still relevant financial instruments that were created under the system of central planning? Such instruments could include loans made by the State Bank at highly subsidized rates, e.g., credit to agriculture, and industry, etc.

6. Please describe the present bank reporting system and the reporting requirements, the timing of reports, and the time needed to compile statistics for the major monetary aggregates. Please also describe any plans to improve the reporting system. Specifically, do the present and any prospective reporting systems provide for a clear distinction between residents and nonresidents and, among residents, between the central government, enterprises, and the private sector? Following the economic

reform, are there any plans to collect separate data for private enterprises?

7. Please describe in detail the instruments and mechanism of monetary control.

8. Please describe the pre-reform system of bank clearing and the anticipated changes in the system.

9. Please describe in detail the current system for foreign currency deposits. When were foreign currency deposits introduced? Are interest rates on foreign currency deposits the same as for savings deposits?

10. Please explain the present method for determining loan lending and deposits rates.

V. Government finance

The following is a Government Finance Statistics (GFS) questionnaire that requests information on institutional and accounting arrangements pertaining to the operations of all levels of government in Mongolia. It would be appreciated if this questionnaire could be completed prior to the mission's arrival. Also, please provide answers to the specific questionnaire.

1. Institutional questionnaire

a. Units of Government

(1) Units of central government

(i) Covered by central government budget

Please list major administrative units, such as ministries, agencies and similar bodies, the operations of which are included under parts or chapters of the central government budget. For each unit, please indicate whether all of its financial operations are included under the central government budget.

(ii) With separate (own) budgets

Please list all agencies, funds, organizations (by type), universities and similar units which are not covered by the central government budget, but which rely substantially on tax revenue or transfers from the central government budget to cover their expenditure.

(2) Units of city governments

(i) Covered by the budgets of the cities (e.g., Ulaanbaatar)

Please list--separately for each city--major administrative units, such as agencies and similar bodies, the operations of which are included under parts or chapters of the budgets. For each unit, please

indicate whether all of its operations are included under the city budgets.

(ii) With separate (own) budgets

Please list all agencies, funds, subsidized organizations (by type), universities and similar units which are not covered by the budgets of the cities, but which rely substantially on earmarked tax revenue or transfers from city budgets to cover their expenditure.

(3) Units of aimaks and somons

Please list the types (e.g., districts, communes, municipalities, etc.) of national committees and indicate a number of committees of each type.

(4) Other

Are there any other non-commercial activities or institutions, the operations of which are not included in the units listed above? If so, please provide a brief description of these activities or institutions and indicate where accounts of their operations may be found.

b. Liquidation or Complementary Period

Please summarize briefly the rules governing transactions carried out in a complementary period, that is, a period after the close of the regular fiscal year during which uncompleted collections, payments, and commitments may be

carried out and assigned to the previous fiscal year's accounts. Please indicate if the closing date for various units or operations is variable.

c. Government Accounts and Funds

Please list accounts with the state bank through which the operations of units listed in section I are carried out and indicate for each given account the units that utilize it.

d. Sources of Data

For the units listed in section I, please indicate the available sources of data on the accounts of their operations, the frequency with which these data are available, the organization responsible for issue, and the length of time that elapses between the close of their accounting periods and the time that data are available.

e. Nonfinancial Public Enterprises

Please indicate the number of state-owned enterprises (exclusive of cooperatives), broken down by main sectors.

f. Public Financial Institutions

Please list all banks and insurance institutions.

2. Specific questionnaire

a. Please explain the nature of non-tax revenues from enterprises and cooperatives.

b. Please explain the differences between allowances and social security payments.

c. Please explain whether investment expenditures of public enterprises include investment paid for from the state budget. Where are such transfers recorded in the state budget, and how are they financed?

d. Please explain the purpose of, and the mechanism for financing, the compensation fund that existed before 1986.

e. Please provide a brief description of the principal taxes and fees imposed by the central government, including custom duties on exports and imports, domestic turnover taxes, social security fees, production taxes, payments to labor reserve, rental fees, and payments to the social security fund for disaster relief.

f. Please explain how the rental fees paid by enterprises are calculated.

g. Please explain whether the allocations from the state enterprises for social, development, and disaster funds are held by the enterprises or transferred to the budget. If the latter is the case, please indicate where these transfers are recorded in the state budget.

h. Please describe the nature of the off-budgetary accounts and provide data on the amounts involved.

i. Please explain the method for determining the profit markup for each industry.

j. Are cooperatives subject to the same taxes and the same tax rates as enterprises.

k. Do ministries have direct control over the budgets of their respective enterprises and cooperatives since the new enterprise law was implemented in 1989?

l. Are pensions included in budgetary expenditure? If so, where? If not, how are they financed?

m. Please provide data on foreign grants and loans related to turnkey projects (where both labor services and materials are imported), and other technical assistance (where only materials are imported). Are these fully recorded in the state budget?

n. Please provide information on the following budget items: (i) grants and loans, in cash and in kind; (ii) debt and debt service, in transferable rubles and convertible currencies; and (iii) domestic financing and the terms of its servicing.

VI. Balance of payments and external debt

1. Balance of payments data sources and methods

Please correct any errors in the following statements. Please also provide any additional information that would be useful for an understanding of the balance of payments data or the methodology used to compile them. When separate components are compiled for convertible and nonconvertible currency transactions, please comment on each component separately.

Merchandise exports and imports. There are two sources for trade data: The State Bank and the Ministry of Trade.

- a. Foreign exchange record data. The State Bank compiles data on the value of exports and imports on a payments basis. The State Bank's exports data include gold sales and, since 1986, bonuses from the U.S.S.R. for Mongolia's compliance with annual export volume targets.

Please describe the procedures for compiling foreign exchange statistics by the State Bank, including the various types of forms completed by those acquiring or selling foreign exchange, the processing system, quality control changes, timeliness of results, and major coverage or other problems.

- b. Shipment data. The Ministry of Trade compiles data on the value of exports and imports on a shipment basis, which reflects notifications of delivery or receipt by the state foreign trade enterprises (Mongolimpex, Mongolexport, Raznoimport, Teknikimport, and Avtoneftimport). Export data are compiled on an f.o.b. basis. Import data are primarily on a c.i.f. basis, although some contracts are specified as f.o.b. Disaggregated information on the commodity

composition of trade is compiled and maintained only by the Ministry of Trade. Cross-border barter trade with China, under which Mongolian agricultural raw materials are exported in exchange for Chinese consumer goods, is not captured in either set of official data.

Please describe the procedures for compiling international trade statistics by the Ministry of Trade. This should include descriptions of the various types of forms completed by importers and exporters, the processing system, quality control checks, timeliness of results, and any major coverage or other problems. Please explain whether there is any adjustment (coverage deficiencies on other factors) made to value of exports and imports of either at the official sets of trade data. For example, is interest on trade credit included in import statistics? Furthermore, please explain in detail the mechanism for setting export and import prices. Finally, please explain the mechanism of the U.S.S.R. bonus system; has this system continued to operate since January 1, 1991?

Services. Data on services receipts and payments are compiled by the State Bank. Data on interest payments are compiled on a cash basis. Data on dividends paid to nonresident partners in joint ventures are not recorded. Data on current payments financed by project loans, in the form of turnkey projects (where both labor

services and materials are imported) are not compiled by either the State Bank or the Ministry of Trade.

Capital. Data on capital transactions are compiled by the Ministry of Finance; these include data on trade and investment financing from other CMEA countries, and grants and loans from the U.S.S.R. to finance that part of the trade deficit arising from terms of trade losses during 1976-1985. Data on foreign monetary assets and liabilities are compiled by the State Bank. Detailed information on deposits held with the State Bank by foreign residents (mainly embassies) is available from 1980.

Please explain whether the U.S.S.R. still provides grants and loans to finance the trade deficit since 1985.

Please describe the procedures for compiling foreign exchange and trade statistics by both the State Bank and the Ministry of Trade. In doing so, please include information of the various types of forms completed by importers and exporters, the processing system, quality control checks, timeliness of results and any major coverage or other problems.

2. Currency conversion methods used to compile balance of payments statistics

Please describe the various methods to convert balance of payments transactions expressed in various currencies to a common unit of currency.

3. International debt and investment position data

For the capital account items, e.g., medium- and long-term capital (trade loans, turnkey projects, technical assistance loans), and reserves, it would be useful if the corresponding stock data could be compiled from 1980 to 1990. If possible, separate details should be provided for both asset and liability positions and for the official (including the central government, public enterprises, and the State Bank), and other sectors. Separate data for external assets and liabilities in convertible currency should also be compiled in terms of U.S. dollars; for debt in nonconvertible currencies, the data should be in transferable rubles. The exchange rates used should be end of period exchange rates. Please provided explanations of any differences between the balance of payments capital account entries and the changes in stock data.

4. Data links to monetary statistics

The stock data prepared in answer to the preceding questions "3" should use valuation and classification consistent with data compiled

monetary statistics. Please indicate any areas where there are discrepancies in valuation, classification, or timing between the two types of statistics.



Office Memorandum

I.O. Country
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January 9, 1991

MEMORANDUM FOR FILES

Subject: Mongolia--Meeting with Asian Department Staff

On January 7, 1991, Mr. Joyce and I met with a group of ASD staff members (Mr. Saito, Ms. Milne, and Mr. Leimone) to discuss the timing and terms of reference for the proposed STA multi-topic mission to the Mongolian People's Republic (MPR).

1. Timing

The ASD staff explained that March 1991 had been proposed for the multi-topic STA mission because it was necessary for the STA mission to be scheduled ahead of other missions scheduled for Mongolia during March to May: INS in early April, CBD in the second half of April, and ASD consultation mission in early May. The ASD staff explained further that any time after February 15 (New Year's day in MPR) would be acceptable to the authorities and ASD. Timing of the mission should also take into account that there is only one flight per week (Monday) from Beijing to Ulaanbaatar, and that routing through Moscow, from which there was a daily flight, was difficult on account of visa problems.

2. Terms of reference

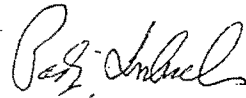
Mr. Joyce indicated that, as agreed between Mr. McLenaghan and Mr. Danzan, the mission would include a three-day training program in the methodologies of monetary statistics, balance of payments statistics, and government finance statistics. He solicited the ASD staff's opinion about the priority areas that would need immediate STA technical assistance. The ASD staff indicated that priority should be given to monetary data, balance of payments data, and government finance data. Assistance in real sector data was not considered by the ASD staff as high priority for the Fund, since assistance would be

sought from the United Nations on national accounts. However, the mission could help the authorities lay the groundwork to establish a simple measure of consumer prices (a household income and expenditure survey had not been undertaken in Mongolia). Mr. Joyce doubted that that could be accomplished in the present mission, although the possibility of a specialized mission in price statistics could be discussed with STA management.

ASD staff considered that, for monetary data, the mission should review the existing accounting procedures and classification of assets and liabilities of the State Bank. Some of the data problem the membership mission had found were that assets of the State Bank were not equal to liabilities, and that certain items were double-counted between the balance sheet and off-balance sheet entries. For balance of payments data, the task would be to help the authorities improve their compilation and classification of data on exports and imports on a custom basis and services receipts and payments, with emphasis on the latter. With regards to capital transactions (which are mostly related to the Eastern European countries), as more and more transactions are being carried out with convertible-currency countries, an additional task would be to set up a system for monitoring borrowing and direct investment from these countries. There was also a suspicion that reserve assets were misclassified. For government finance data, the mission should aim to separate the central government accounts from those of enterprises and insure that no foreign financing was still included in revenue. Moreover, the task should include a general review of classification of government accounts. There are off-budgetary accounts, and some of which were documented in the membership paper (EB/CM/Mongolia/90/1, November 29, 1990). The ASD staff suggested that STA should coordinate its technical assistance effort with FAD in the area of the tariff system; FAD is planning to have a follow-up to its November 1990 mission. For all of the three main areas, the mission should focus on more recent data in its work: data prior to 1985 should be given low priority. Furthermore, for use by the future ASD consultation mission, Mr. Saito requested the STA mission to check the quality of the tables in the membership paper with the authorities.

Mr. Joyce asked if the State Bank would need assistance in developing a computerized database, as had been discussed with Mr. Danzan. The ASD staff explained that the State Bank now had a computerized system, at least at the headquarters in Ulaanbaatar. A

commercial bank from the Washington area (Riggs Bank) was helping the State Bank to set up a computer program for its accounts and, therefore, assistance in this area was not a high priority for the STA mission.



Padej Sukachevin
Economist

Financial Institution Division I

cc: Mr. McLenaghan
Mr. Donovan (o.r.)
Mr. O'Connor
Mr. Gill
Mr. Joyce
Mr. McLoughlin
Mr. Stillson
Mr. Wolfe

DONOVAN, Donal J.
RM. 155-100

0408

EBD/90/420

December 19, 1990

To: Members of the Executive Board
From: The Secretary
Subject: Mongolia - Report of the Committee on Membership

Attached is the report by the Chairman of the Committee on Membership for Mongolia, recommending the approval of a draft membership resolution for the Mongolian People's Republic for submission to the Board of Governors for a vote by mail.

This matter is being placed on the agenda of an Executive Board meeting to be held on Friday, December 21, 1990.

Att: (1)

Other Distribution:
Department Heads

December 19, 1990

To: The Chairman of the Executive Board

From: Mr. Santos, Chairman, Committee on Membership - Mongolia

Subject: Mongolian People's Republic - Report on Membership

On November 30, 1990, the Executive Board decided to proceed with the formal investigation of the application for membership in the Fund made by the Government of the Mongolian People's Republic on June 26, 1990 (EBD/90/204, 7/11/90), and appointed this Committee to study the application and to report to the Executive Board (EBD/90/204, Sup. 1, 11/29/90).

The Committee, after considering the size and characteristics of the economy of the Mongolian People's Republic in relation to those of existing members and taking into account the existing structure of Fund quotas, concluded that an initial quota of SDR 25 million would be appropriate for the Mongolian People's Republic. The Committee further agreed that the Mongolian People's Republic should be given the option to consent to an increase in its quota to SDR 37.1 million, in accordance with the provisions of the Board of Governors' Resolution No. 45-2 on the Ninth General Review of Quotas. This increase would take effect in accordance with the terms of that Resolution and the Mongolian People's Republic would pay for the increase in accordance with Article III, Section 3 of the Articles. The increase in the quota of the Mongolian People's Republic was calculated by the staff using the uniform method of distribution and the rounding procedures agreed for the Ninth Review.

The Committee considers that the Mongolian People's Republic should be permitted to pay its initial subscription within six months after accepting membership in the Fund. The Committee further recommends that the Mongolian People's Republic should pay an amount equivalent to 22.7 percent of its initial quota in SDRs or in currencies of other members acceptable to the Fund. Such payment would be in accordance with Article II, Section 2 of the Articles and the guidelines adopted by the Executive Board in Executive Board Decision No. 6266-(79/156), adopted September 10, 1979, for the payment of reserve assets in connection with the initial quota payment. The balance of the subscription should be paid in the currency of the Mongolian People's Republic.

The authorities of the Mongolian People's Republic have indicated that the proposed terms and conditions for the membership of the Mongolian People's Republic are acceptable to them.

Accordingly, the Committee recommends that the attached draft decision be adopted by the Executive Board, and that the report and the draft Resolution appended thereto be sent to the Board of Governors, the latter for a vote without meeting.

Attachments

DRAFT DECISION

MEMBERSHIP FOR THE MONGOLIAN PEOPLE'S REPUBLIC

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the attached draft Resolution.
2. The Secretary is directed to send the attached report and draft Resolution on Membership for the Mongolian People's Republic to each member of the Fund by rapid means of communication on or before [].
3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 6:00 p.m. Washington time on []. Votes received after that time will not be counted.
4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.
5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.
6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

REPORT BY THE EXECUTIVE BOARD

MEMBERSHIP FOR THE MONGOLIAN PEOPLE'S REPUBLIC

The Mongolian People's Republic applied on June 26, 1990 for admission to membership in the International Monetary Fund in accordance with Section 2 of Article II of the Articles of Agreement of the Fund. Pursuant to Section 21 of the By-Laws, the Executive Board has consulted with the representative of the Mongolian People's Republic and has agreed upon the terms and conditions which, in the opinion of the Executive Board, the Board of Governors may wish to prescribe for admitting the Mongolian People's Republic to membership in the Fund.

The Executive Board has therefore approved the attached Resolution for submission to the Board of Governors for a vote without meeting pursuant to Section 13 of the By-Laws.

INTERNATIONAL MONETARY FUND

DRAFT RESOLUTION

MEMBERSHIP FOR THE MONGOLIAN PEOPLE'S REPUBLIC

WHEREAS, the Mongolian People's Republic, on June 26, 1990 requested admission to membership in the International Monetary Fund in accordance with Section 2 of Article II of the Articles of Agreement of the Fund;

WHEREAS, pursuant to Section 21 of the By-Laws of the Fund, the Executive Board has consulted with the representative of the Mongolian People's Republic and has agreed upon the terms and conditions which, in the opinion of the Executive Board, the Board of Governors may wish to prescribe for admitting the Mongolian People's Republic to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Board, hereby resolves that the terms and conditions upon which the Mongolian People's Republic shall be admitted to membership in the Fund shall be as follows:

1. Definitions: As used in this Resolution:
 - (a) The term "Fund" means the International Monetary Fund;
 - (b) The term "Articles" means the Articles of Agreement of the Fund, as amended; and
 - (c) The term "SDRs" means special drawing rights of the Fund.
2. Quota: The quota of the Mongolian People's Republic shall be SDR 25 million.
3. Payment of Subscription: The subscription of the Mongolian People's Republic shall be equal to its quota. The Mongolian People's Republic shall pay 22.7 percent of its subscription in SDRs or in the currencies of other members selected by the Managing Director from those currencies that the Fund would receive in accordance with the operational budget in effect at the time of payment. The balance of the subscription shall be paid in the currency of the Mongolian People's Republic.
4. Timing of Payment of Subscription: The Mongolian People's Republic shall pay its subscription within six months after accepting membership in the Fund.
5. Increase in Quota Equivalent to an Increase Under the Ninth General Review: The quota of the Mongolian People's Republic shall be increased to SDR 37.1 million, to which the Mongolian People's Republic may consent in accordance with the provisions of the Resolution of the Board of

Governors No. 45-2 on the Ninth General Review of Quotas. This increase shall take effect in accordance with the terms of that Resolution and the Mongolian People's Republic shall pay the increase in accordance with Article III, Section 3 of the Articles.

6. Exchange Transactions with the Fund and Remuneration: The Mongolian People's Republic may not engage in transactions under Article V, Section 3, or receive remuneration under Article V, Section 9, until its subscription has been paid in full.

7. Exchange Arrangements: Within 30 days after accepting membership in the Fund, the Mongolian People's Republic shall notify the Fund of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1 of the Articles.

8. Representation and Information: Before accepting membership in the Fund, the Mongolian People's Republic shall represent to the Fund that it has taken all action necessary to sign and deposit the Instrument of Acceptance and sign the Articles as contemplated by paragraph 9(a) and 9(b) of this Resolution, and the Mongolian People's Republic shall furnish to the Fund such information in respect of such action as the Fund may request.

9. Effective Date of Membership: After the Fund shall have informed the Government of the United States of America that the Mongolian People's Republic has complied with the conditions set forth in paragraph 8 of this Resolution, the Mongolian People's Republic shall become a member of the Fund on the date when the Mongolian People's Republic shall have complied with the following requirements:

- (a) The Mongolian People's Republic shall deposit with the Government of the United States of America an instrument stating that it accepts in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and
- (b) The Mongolian People's Republic shall sign the original copy of the Articles held in the Archives of the Government of the United States of America.

10. Period of Acceptance of Membership: The Mongolian People's Republic may accept membership in the Fund pursuant to this Resolution not later than six months after the effective date of this Resolution, which date shall be the date of its adoption by the Board of Governors; provided, however, that if the circumstances of the Mongolian People's Republic are deemed by the Executive Board to warrant an extension of this period during which the Mongolian People's Republic may accept membership pursuant to the Resolution, the Executive Board may extend such period until such later date as it may determine.



Office Memorandum

November 21, 1990

MEMORANDUM FOR FILES

Subject: Meeting with Mongolian Representatives

On Thursday, November 15, 1990, I met with Mr. D. Danzan, Deputy Chairmain, State Bank of the Mongolian People's Republic, who is to become the Governor of the Bank; an official from the Mongolian Embassy, who acted as interpreter; and Ms. Milne (ASD). Mr. Danzan was attending the central banking course given jointly by the INST and CBD.

Mr. Danzan reviewed Mongolia's statistical system, which he described as inadequate for the purposes of policy formulation and analysis, and for meeting the Fund's needs. He indicated that the authorities were anxious to receive Fund technical assistance and advice in a number of areas. They were especially interested in developing Mongolian statistics in accordance with international standards.

I described the arrangements normally established with new members for statistical reporting to the Fund, emphasizing the benefits of a coordinated reporting system to meet the needs of ASD and STA, and outlined the Bureau's program of technical assistance in statistics.

We then discussed plans for a multi-topic STA mission. The following points were agreed:

1. The mission timing tentatively scheduled for March 1991 was acceptable to the authorities.

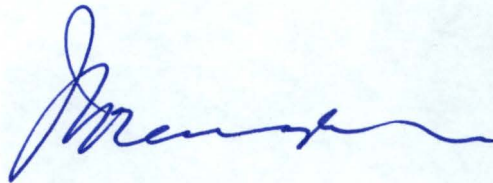
2. A three-day training program at the start of the mission, along the lines of that conducted during recent STA missions in Eastern Europe, would be scheduled. Up to ten officials could be assigned to participate in each of the areas of statistics to be

covered (money and banking, government, finance, and balance of payments); a general overview session, linked to the SNA, would be included.

3. The mission would identify areas in which technical assistance, both short term and long term, could prove beneficial.

4. At Mr. Danzan's request, the mission would also assess the Central Bank's plans for developing a computerized database for which they may be seeking guidance; possible BCS involvement in this area would be considered.

5. A letter proposing the mission would be prepared for the attention of the Minister of Finance. As soon as agreement on the mission timing is reached, a detailed questionnaire and the full set of data needs of the mission should be dispatched.



John B. McLenaghan

cc: Mr. Donovan
Advisors
Division Chiefs
Ms. Milne



Office Memorandum

TO: The Managing Director

September 27, 1990

FROM: P.R. Narvekar PRN

SUBJECT: Mongolian People's Republic--Meeting on
September 28, 11:30 a.m.

1. The Minister of Finance, Mr. Bazarkhuu, is likely to request that an identification mission for technical assistance (staffed by all concerned departments including CBD, FAD, and STA) be sent in October.

2. You may wish to respond that given the limited Fund and Mongolian staff resources (including for translation), a sequential approach may be preferable. A series of missions and meetings can be arranged. CBD/INST can extend an invitation to Mongolia to participate in the November central banking seminar, and discuss technical assistance support for financial reform at that time; FAD can field a mission in November, and STA in the first half of 1991.

cc: The Deputy Managing Director
Mr. McLenaghan
Mr. Tanzi
Mr. Zulu

Principal author: Miss Elizabeth Milne

cc, DD

KAC

TM

cir. ✓

1990 SEP 28 11 09 28



Office Memorandum

To: Ms. Milne

October 25, 1990

From: Daniel Scheuer 

Subject: Mongolia--Quota Paper

Further to your memorandum to Mr. McLenaghan, attached is a copy of this paper with some minor editorial comments. Apart from these comments, there are two issues in statistics that might deserve some further discussion in the paper.

As shown in the Main Economic Indicators table, the growth of GDP at constant prices outpaces the growth of nominal GDP in 1985-87 and again in 1989, reflecting the substantial declines in the net material product implicit deflators in those years. While this unlikely situation is briefly discussed on page 29 of the report, it might be possible to give some indication of the likely size as well as the direction of the biases. For instance, a decline in official list prices might have been reflected in budgetary subsidies (and to some extent in domestic credit creation when subsidy payments were delayed), and the changing dimension of these subsidies relative to sector material product could give some indication of the underlying price trends.

With respect to the monetary survey (Table 3), I presume that the net international reserves concept is intended to reflect the balance of payments concept, as a result of which, however, demand deposits of nonresidents are included in the definition of money. Since residency is the primal sector criterion for monetary statistics, it would be preferable to use instead the concept of net foreign assets, distinguishing as components the net international reserves and net other foreign assets. Some explanation of the nonmonetary "other liabilities" item, which would usually be included in net other items, would also be useful.

Attachment

cc: Mr. McLenaghan (w/o attachment)
Mr. Donovan "
Mr. Wolfe "

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DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**IMMEDIATE
ATTENTION**

MCLLENAGHAN, John B.
RM. IS5-100

0401

EBD/90/352

October 19, 1990

To: Members of the Executive Board
From: The Secretary
Subject: Mongolia - Request for Technical Assistance

A request has been received from the Mongolian authorities for technical assistance to advise on a proposed tax reform to be introduced during the first part of 1991. It is proposed to comply with this request by sending Mr. Jacques Baldet, Advisor, and Mr. John Brandolo, Research Officer, both from the Fiscal Affairs Department, to Ulaanbaatar for two weeks from early November 1990. The mission would be accompanied by two members of the panel of fiscal experts.

In the absence of a request for discussion by an Executive Director by noon on Wednesday, October 24, 1990, the proposal will be deemed to have been approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Other Distribution:
Department Heads



Office Memorandum

DA

TO: The Managing Director

September 27, 1990

FROM: P.R. Narvekar PRN

SUBJECT: Mongolian People's Republic--Meeting on
September 28, 11:30 a.m.

1. The Minister of Finance, Mr. Bazarkhuu, is likely to request that an identification mission for technical assistance (staffed by all concerned departments including CBD, FAD, and STA) be sent in October.

2. You may wish to respond that given the limited Fund and Mongolian staff resources (including for translation), a sequential approach may be preferable. A series of missions and meetings can be arranged. CBD/INST can extend an invitation to Mongolia to participate in the November central banking seminar, and discuss technical assistance support for financial reform at that time; FAD can field a mission in November, and STA in the first half of 1991.

cc: The Deputy Managing Director
Mr. McLenaghan
Mr. Tanzi
Mr. Zulu

Principal author: Miss Elizabeth Milne

cc, DD
KOC
TM
cir.

1530 SEP 28 11 0 28

1990 Annual Meetings Minutes

(Asian Department Meeting)

Country: Mongolia

Delegates: Mr. Barzarkhum, Minister of Finance
Mr. Buyantogtokh, Executive Director,
Monetary Department, Ministry of Finance

Asian
Department: Ms. Milne
Mr. Leimone

Fiscal Affairs
Department: Mr. Baldet

IMF Institute: Mr. Lanyi
Mr. Otani

Central Banking
Department: Mr. Downes

Bureau of
Statistics: Mr. O'Connor
Mr. Wolfe

Date: September 26, 1990

The meeting, which was chaired by Ms. E. Milne of the Asian Department, was called to provide the Mongolian delegation with an overview of the range of technical assistance provided by the Fund.

Mr. Baldet noted that the Fiscal Affairs Department was prepared to offer assistance in the area of tax reform and also in a number of other related areas. He suggested that, while some assistance could be scheduled fairly quickly, it would be useful if the authorities provided an indication of the current status of the tax reform measures now under review in Mongolia.

Mr. Lanyi described the types of training provided by the Institute, both at Headquarters and abroad, and noted that the Institute stood ready to assist the Mongolian authorities in this endeavor. He suggested that one advantage of scheduling a seminar in Ulan Bator was the ability to train a relatively large number of officials; at the same time, the potential lack of adequate translation facilities would require a substantial lead time when planning such a seminar.

Mr. O'Connor explained that the Bureau of Statistics provides technical assistance (both long- and short-term) in the money and banking, government finance, and balance of payments areas. The delegation were given copies of the statistical manuals in these areas. He also noted that assistance was provided in the real sector. Technical assistance is also provided through the training programs mentioned by Mr. Lanyi. Over the last year or two, the Bureau had worked with a number of economies in transition and this experience would be useful given the current situation in Mongolia. Mr. O'Connor indicated that a multi-topic mission would probably be the most appropriate course of action, but that the Bureau could provide assistance in specific areas if necessary.

Mr. Downes enumerated the short- and long-term assistance provided by the Central Banking Department and made particular mention of assistance in the area of drafting central bank legislation. He cited experience in Lao P.D.R., Viet Nam, and Myanmar which he suggested would be useful background to the work in Mongolia.

In response, the Minister said that the transition now under way in Mongolia required a cadre of well-trained staff and that there was an immediate and desperate need in this area. With this in mind, it would be useful if a member of each of the technical assistance departments could contribute a staff member to participate in a joint mission later this year to discuss with the authorities the needs for assistance. In this context, he noted that the government was currently reviewing the departmental infrastructure in Mongolia, and also mentioned that two commercial banks had been established earlier in the month. Ms. Milne suggested that, given the lack of available contacts in Mongolia, it might be preferable to have the technical assistance departments sequentially send people to Ulan Bator with the Asian Department providing a staff member for the entire period. This alternative was acceptable to the Minister. Mr. Baldet confirmed that his department could send a small advisory mission before Christmas. Noting the demands already placed on the Bureau of Statistics, Mr. O'Connor said that a multi-topic mission could not be undertaken until early next year, although it may be possible to send a one-man mission before then. Mr. Downes indicated that the commitments of the Central Banking Department made it unlikely that a team-type mission could be scheduled before mid-1991, but a small-scale visit might be possible, particularly if management indicated that Mongolia should be given high priority in technical assistance. It was noted that the Minister was meeting with the Managing Director later in the week.

Follow-up action

None for the immediate future. The Minister said that he would consult with his colleagues on returning to Ulan Bator and send a letter to the Fund specifying the type of technical assistance needed.

International Monetary Fund
Bureau of Statistics - 1990 Annual Meetings

Country Brief

General Note

STA (Mr. Sukachevin) participated in a membership mission during August 13-27, 1990 (see attached back-to-office reports of Mr. Saito to the Managing Director and Mr. Sukachevin to Mr. McLenaghan). The mission found the authorities both well prepared and anxious to effect improvements in the statistical area. The authorities expressed strong interest in obtaining Fund technical assistance in all statistical areas, as well as in the fiscal and banking areas, and they plan to approach concerned departments during the forthcoming Annual Meetings.

Three areas were identified as priorities for technical assistance from STA: (1) the compilation of money and banking statistics; (2) the compilation of balance of payments statistics; and (3) the compilation of government finance statistics. In all three areas, the authorities are anxious to conform to Fund methodology. They would also wish, therefore, to send relevant personnel to the Institute's statistical courses.

The authorities were invited to attend the Annual Meetings. Two officials are scheduled to attend: Mr. A. Bazarkhuu (Minister of Finance) and Mr. D. Buyantogtokh (Executive Director of the Monetary Department of Ministry of Finance).



Office Memorandum

TO: Mr. McLenaghan ✓
Mr. Tanzi
Mr. Teyssier
Mr. Zulu

September 19, 1990

FROM: K. Saito

SUBJECT: Mongolian People's Republic: Technical Assistance

During the membership mission in Ulaanbaatar this past August, the Mongolian authorities indicated keen interest in obtaining technical assistance and training from the Fund, to assist them in their transition from a centrally planned to a market economy. They are particularly interested in assistance in tax reform, the separation of commercial and central banking function of the State Bank, and improvements in economic and financial statistics. In addition, they have expressed strong interest in the Institute courses, including the possibility of a seminar in Ulaanbaatar.

To discuss their needs in further detail, it is proposed to hold a meeting with the Mongolian delegation and the representatives of the relevant departments on Wednesday, September 26, at 10:00 am in the Sheraton (Room 2064). Any follow up meeting with individual departments can be arranged at that time. For any questions regarding the meeting, please contact Mr. Leimone (Ext. 7315).

cc: Mr. Narvekar

DD
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VG
TM (to reply)

1990 SEP 20 PM 3:17
INTERNATIONAL MONETARY FUND



Office Memorandum

Mr. Sukachev

To: Mr. McLenaghan
Through: Peter L. Joyce
From: P. Sukachev *PS*

September 5, 1990

*Thank you for a
valuable report. LB*

*keep me informed on
the membership paper*

Subject: Back-to-Office Report on Participation in Membership Mission
to Mongolian People's Republic (August 13-27, 1990)

9/5/90

A membership mission ^{1/} that visited Ulaanbaatar during August 13-27, 1990 was very well received by the Mongolian authorities. The mission collected and assessed the basic data needed for quota calculations and the membership paper, and acquainted the authorities with the legal, financial, and procedural steps toward membership and the rights and obligations of membership.

My primary responsibilities were in the areas of national accounts and real sector data. The mission's work on the national accounts data focused on the need to convert the authorities' data on net material product (NMP) to gross domestic product (GDP). After examining the NMP data, the mission proposed that the authorities make adjustments to the NMP data to capture the value of non-material services and depreciation of fixed capital. The authorities were able to make these adjustments, using data collected in the course of preparing the NMP estimates, and they provided the mission with GDP data and its sectoral components for the period 1980 to 1989. These data appear to provide a good approximation of the value of GDP and will be used in the quota calculations and the membership paper. The mission also collected available data on output of agricultural products (e.g., animal husbandry and crops such as cereals, potatoes, and vegetables) and industrial products (fuel, textile, clothing, and the like), prices (wholesale, consumer, export and import unit values), employment, and wages.

The real sector data were prepared for the mission by the State Statistical Office; these data are directly reported to the Statistical Office from the data collection network comprising 300 districts, and 21 regional offices in 18 provinces and 3 large cities. The authorities explained that all data from the 300 districts are electronically transferred to the regional offices.

^{1/} Comprising Mr. Saito (head), Ms. Milne, Mr. Leimone, Ms. Rosario (all ASD), Messrs. Oh (LEG), Nocera (TRE), Rozwadowski (ETR), Mrs. Tenney (SEC), and myself.

The Statistical Office receives and stores the processed information sent by the 21 regional offices in the mainframe computer. Other types of statistics such as external current transactions, external debt, exchange rate, international reserves, and government finance are compiled either by the State Bank or by the ministries concerned; the data are then either sent in hard copy or electronically transferred to the Statistical Office.

The coverage of the external current account data provided to the mission includes exports (f.o.b. basis), imports (c.i.f. basis), services (mostly transportation of goods between China and the U.S.S.R.), and travel receipts (include only tourism). Other items in the services account include interest payments on long-term loans, payments on insurance and international communications. At present, external transactions data are collected by the State Bank and the Ministry of Trade: data from the State Bank are on a payments basis, whereas the data from Ministry of Trade are based on notification of delivery by foreign trade companies. Mongolia's external debt is due mostly to the U.S.S.R., which includes import financing and technical assistance (comprising capital goods for projects as well as experts and feasibility studies). Mongolia's trade with the CMEA countries is based on two exchange rates, a commercial and a non-commercial rate, quoted against the transferable ruble (TR). The commercial rate (Tugrik 4.44 per TR) is applied to most external transactions, whereas the non-commercial rate (Tug 4.18 per TR) is applied to services such as tourism. Both rates were originally set by taking into account the general price structure of Mongolia compared with the price structure of other CMEA countries but have remained unchanged since 1968. Mongolia's trade with the non-CMEA countries is also based on two exchange rates, commercial and non-commercial, quoted against the U.S. dollar. The non-commercial rate (Tug 20.0 per U.S. dollar) is available only to Mongolian residents who wish to exchange tugrik against foreign currency for tourism or similar activities, whereas the commercial rate (e.g., Tug 5.55 per U.S. dollar as of August 1, 1990) is applied to all other transactions. The international reserves data include gold holdings (troy ounces) and convertible foreign exchange holdings (millions of U.S. dollars). These data exclude non-convertible reserves. The coverage of government budget data includes the operations of the general government, local governments, and part of the capital outlays of public enterprises. The authorities stated that the state budget receives no financing from the State Bank other than the transfer of foreign loans. However, the State Bank directly finances a portion of enterprises' investment in accordance with the plan, and may also finance unplanned losses of enterprises when unplanned surpluses of other enterprises are inadequate to cover the losses. There are no limits on such financing.

The authorities indicated that they would welcome technical assistance from the Fund to assist them in transforming Mongolia from a centrally planned to a market economy. Five areas were identified as priorities for technical assistance: (1) to separate the central banking function from the deposit money bank activities of the State Bank, the only bank in Mongolia; (2) to compile money and banking statistics in accordance with Fund methodology; (3) to compile balance of payments statistics; (4) to support tax reform efforts; and (5) to compile government finance statistics according to Fund methodology.

I am responsible for drafting the section on the real sector for Mongolia's membership paper. The first draft of the paper is due to be completed around the end of September 1990.

cc: Mr. Donovan (o.r.)
Advisors
Division Chiefs

Cable Room ID: RCIA8496

Page: 01

REC Distribution

Processed: August 13, 1990 09:18
Sender:
(Mongolia)

1990 AUG 13 PM 12:23
ORIG: ASD
ASIAN DEPARTMENT



1990 AUG 13 PM 5:15
BUREAU OF INTERNATIONAL FINANCE

MR.P.R. NARVAKAR
DIRECTOR
INTERFUND
WASHINGTON.D.C.
U.S.A
TELEX NO 248331 IMF UR

cc: ETR
LEG
SEC
STAV
Divs. A,B,D
KKS

MONGOLIA MISSION ARRIVED:
SAITO (TEL. NO. 78218) ROSARIO
(TEL. NO.78323) MILNE, LEIMONE,
OH (LEG) NOCERA (TRE) TENNEY
(SEC) SUKACHEVIN ((STA) AND
ROZWADOWSKI (ETR)
SAITO IKH TENGER HOTEL

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Office Memorandum


To: Mr. Joyce

August 6, 1990

From: C.A. Patel 

Subject: Comments on Draft Briefing Paper on
Membership Mission to Mongolia

The only point I wish to stress on national accounts is that even if Mongolia proves to have relatively little sector-specific data for effecting the net material product (NMP) to gross domestic product (GDP) conversion outlined in this briefing paper, the mission should nonetheless collect available information to try to estimate the missing components, rather than simply apply aggregate adjustment coefficients for nonmaterial services and depreciation to total NMP. This approach is more likely to yield more robust estimates of GDP for Mongolia, and will yield background material for the consideration of a future technical assistance mission.

cc: Mr. McLenaghan
Mr. Donovan 



Office Memorandum

Discussed
8/9/90

To: Mr. McLenaghan
From: Peter L. Joyce
Subject: Mongolia: Briefing Paper

P August 6, 1990

Attached please find the final briefing paper for the area department mission to the above-mentioned country.

Regarding the suggestion by Mr. Luu to obtain information on current and planned technical assistance by other international organizations that relate to statistics, the mission members were specifically advised by the Mission Chief to refrain from becoming involved in this subject. In fact, the briefing that was sent to the management did not address the aspect of technical assistance at all.

Attachment

cc: Mr. Donovan
Mr. McLoughlin (o.r.)
Advisors
Division Chiefs



Office Memorandum

TO: Mr. McLenaghan August 6, 1990

THROUGH: Peter L. Joyce, Division Chief

FROM: Padej Sukachevin

SUBJECT: Briefing Paper on Participation in Membership
Mission to Mongolia (August 13-27, 1990) 1/

A staff mission consisting of Mr. Saito (head), Ms. Milne, Mr. Leimone (all ASD), Messrs. Oh (LEG), Friedman (SEC), Nocera (TRE), Rozwadowski (ETR), Ms. Rosario (Administrative Assistant, ASD), and myself will visit Ulaanbaatar for about two weeks beginning August 13, 1990. The mission will gather the data necessary for the calculation of the quota as well as acquaint the authorities with the legal, financial, and procedural steps toward membership and the rights and obligations of membership.

My assigned responsibilities are in the area of national accounts statistics. Mongolia uses the net material product (NMP), which is common to centrally planned economies, to measure its national income. The NMP system is different from the gross national product (GDP), which is used for Fund quota calculation. The NMP is defined as the difference between gross material product (which includes production of material goods and material services but excludes non-material services such as finance, insurance, education, and the like) and material consumption of inputs including depreciation of fixed capital.

In principle, GDP can be estimated from the NMP by using a conversion method. The attached Table 1--Mongolia: Conversion of Net Material Product to Gross Domestic Product, According to Type of Production Activity--shows a possible way to convert the production aggregates of NMP to GDP by using a number of adjustment items as detailed in the table and explained in the note attached to the table. Table 1 shows that there is no one-to-one conversion of NMP production to GDP at a disaggregated level. Experience in another Asian country, Lao People's Democratic Republic, shows that the staff had to ignore the disaggregated adjustment items entirely. Instead, the staff estimated GDP from the given NMP by adding estimates of nonmaterial

1/ My last day in the office will be August 8, 1990.

services and depreciation of fixed capital to NMP; the staff used certain proportions of NMP to estimate the nonmaterial services and depreciation. Subject to the availability of data in the field, it will be necessary to formulate such estimates of the adjustment items.

Thus, my major task will be to collect data relating to the NMP, to review their coverage and accuracy, to assess the extent of any distortions created by unrealistic exchange rates and controlled prices used by the authorities in their computation, to formulate estimates of the adjustment items, and thus to estimate GDP for use in the quota calculation. Based on the data collected, the task will also include discussions with the authorities on recent developments in national accounts.

With regard to the issues of relevance to the Bureau, I will attempt to obtain, to the extent possible, additional information on the data collection systems related to other macroeconomic areas, for example, money and banking, balance of payments, and government finance, which would be useful for the assessment of possible future technical assistance from the Bureau.

Attachment

cc: Mr. Donovan
Advisors
Division Chiefs

Table 1. Mongolia: Conversion of Net Material Product to Gross Domestic Product,
According to Type of Production Activity, (year)
(In millions of tugrik)

Types of production activities according to System of Material Product Balances (MPS)	Net material product (NMP)	Standard adjustment items for converting NMP to GDP							Gross domestic product (GDP) (8+9)	Types of production activities according to the U.N. System of National Accounts (SNA)	
		Re-allocation between major production activities	Value added, net in the material sphere	Value of services, consumed by the material sphere	Purchases by enterprises for recreational, cultural services for employees	Cost of travel of employees	Losses in stocks and capital	Net domestic product (1+2+3+4+5+6+7)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
1. Agriculture and forestry	x	x		x	x	x	x	x	x	x	1. Agriculture and forestry
2. Industry	x	x		x	x	x	x	x	x	x	2. Mining, manufacturing, electricity, gas, and water
3. Construction	x	x		x	x	x	x	x	x	x	3. Construction
4. Trade (Wholesale and retail)	x	x		x	x	x	x	x	x	x	4. Trade (whole sale and retail)
Transportation and communication	x	x		x	x	x	x	x	x	x	5. Transportation and communication
6. Other activities of material sphere	x	x									6. (None)
7. Total Material sphere (1+2+3+4+5+6)	x	x		x	x	x	x	x	x	x	7. Total material sphere (1+2+3+4+5)
8. Housing, personal, financial, and business services		x	x	x	x	x		x	x	x	8. Financing, insurance, real estate and business services, and personal services
9. Other non-material services		x	x	x	x	x		x	x	x	9. Community & social services, except personal services
10. Total non-material sphere (8+9)		x	x	x	x	x		x	x	x	10. Total non-material sphere (8+9)
11. Grand total (7+10)	x	x	x	x	x	x	x	x	x	x	11. Grand total (7+10)

Sources: United Nations, Studies in Methods, Comparisons of the System of National Accounts and the System of Balances of the National Economy, Part One (Conceptual Relations) and Part Two (Conversion of Aggregates of SNA to MPS and Vice Versa for Selected Countries), New York, 1981.

"x" denotes the potential placement of data. Blank spaces mean no data are expected.

Explanatory Note of Table 1

Column 1--NMP (net material product) is defined as the difference between gross material product (which includes production of material goods and material services, that is, only services involved in the production of goods) and material consumption of inputs including depreciation of fixed capital. Material product includes outputs from agriculture and forestry, construction, retail and wholesale trade, transportation and communication, and other activities of material sphere. Material services include printing, publishing, hotels, restaurants, distribution of utilities such as electricity and water, and other business services. Excluded from the measurement of the NMP are the non-material services which include finance, insurance, housing, public administration, defense, repairs, education, and welfare.

Column 2--Secondary activity should be separated from the main production activity and classified in the production activity proper to them. For example, if the secondary activity involves the construction of an industrial entity, and is currently being included in the industry, this secondary activity should be deducted from the industry category and added to the construction category. In principle, the entry in one production category (for example, a positive entry) should have a balancing entry (a negative entry) in another category of production activity.

Column 3--Both SNA value added and MPS primary income are defined as gross output minus intermediate consumption (in the case of MPS, also minus capital consumption or depreciation). The main difference between the two concepts is that MPS primary income is confined to income originating in the material sphere, whereas SNA value added includes income from non-material as well as from material spheres. Therefore, value added from the non-material sphere should be added to NMP.

Column 4--Intermediate inputs are excluded in the SNA concept of GDP and, therefore, should be deducted from the NMP.

Column 5--In SNA, these expenditure items are treated as similar expenditures incurred in connection with the normal activities of the enterprises and, therefore, included in the intermediate consumption. Thus, they are excluded from GDP and should be deducted from the NMP.

Column 6--In SNA, travel expenses and other similar types of expenses incurred by employees in connection with the business of their employers are treated as intermediate consumption. However, in MPS, these travel and similar types of expenses are not included in intermediate consumption but treated as primary incomes of the population. In so far as they relate to goods and material services they appear as final consumption of the population and should be deducted from the NMP.

Column 7--In SNA, a distinction is made between foreseen and unforeseen losses. Foreseen losses include losses due to normal events in production (for example, losses in the storage of products) and losses due to normal accidental damage (car accident, fire, and the like). Foreseen losses in stocks are treated as part of intermediate consumption. Unforeseen losses in stock due to major calamities are treated as capital losses, which are not recorded in the production accounts. However, in MPS, only losses in stocks due to normal events in production are included in the material inputs and, therefore, excluded from NMP, whereas the remaining losses are included in NMP. Therefore, losses in stocks due to accidental damage and losses in stock due to major calamities should be deducted from NMP.

In SNA, losses in fixed capital due to major calamities and abandoned construction are treated as capital losses and not recorded in the production accounts, whereas these are included in NMP. Therefore, these losses should be deducted from the NMP.

Column 9--In SNA, consumption of fixed capital is included in the measurement of GDP, but excluded from the measurement of NMP. Therefore, it should be added to the NMP to arrive at the amount of GDP.

Column 10--In SNA, gross domestic product (GDP) is defined as gross value of final goods and services produced by all resident producing units in a country. Therefore, excluded from the measurement of GDP is the intermediate consumption of inputs.



Office Memorandum

Mr. McLoughlin

To: Mr. Donovan

August 3, 1990

From: Peter L. Joyce *[Signature]*

Subject: Mongolia: Draft Briefing Paper for Clearance

Attached please find for your clearance the revised briefing paper for the area department mission to the above-mentioned country.

Attachment

cc: Mr. McLoughlin ✓
Mr. McLoughlin (o.r.)
Advisors
Division Chiefs

Has this been finalized?

[Handwritten mark]

Mr. McLoughlin

GEN has promised comments by 4 pm today, at which time we will finalize.

[Signature] 8/9/90

1990 AUG -6 PM 11: 07

FINANCIAL INST DIVISION
BUREAU OF STATISTICS

Cable Room ID: RCIA8051	Page: 01	Distribution
Processed: August 01, 1990 07:19 Sender: (Mongolia)	ORIG: MR. NARVERKAR CC: ETR LEG SEC STA <u>TRE</u>	



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ATTN : MR.P.R.NARVEKAR,

RE : MISSION TO ULAANBAATAR

I EXPRESS MY GRATITUDE TO YOUR QUICK RESPONSE TO OUR APPLICATION FOR MEMBER MEMBERSHIP IN THE INTERNATIONAL MONETARY FUND.

I AGREE TO THE PROPOSAL MISSION DATES-AUGUST 13-27 AND WOULD LIKE TO INFORM YOU THAT WE MADE REERVATIONS FOR NINE PEOPLE ON MONGOLIAN AIRCRAFT'S FLIGHT FROM BEIJING TO ULAANBAATAR ON AUGUST 13.

PLEASE CONTACT OUR EMBASSY UPON ARRIVAL TO BEIJING.
WE ALSO ARRANGED RESERVATIONS AT IH TENGER HOTEL.

AS TO YOUR NOTE ON THE REQUESTED MEETINGS, DOCUMENTS, BRIEF NOTES AND DATA OUR MINISTRY IS WORKING IN CLOSE CONTACT WITH RELATED MONGOLAIN AUTHORITIES.

YOU CAN COMMUNICATE THROUGH TELEX NO.241 WITH MR.D.BAYARTOGTOKH, EXECUTIVE DIRECTOR OF MONETARY DEPARTMENT, ABOUT ANY QUESTIONS REGARDING YOUR MISSION TO ULAANBAATAR.

BEST REGARDS,
A.BAZARKHUU
MINISTER OF FINANCE
ULAANBAATAR
31 JULY 90
++++K

*cc: JM
DD
CHK.*

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BUREAU OF STATISTICS
IMMEDIATE SERVICE
1990 AUG - 1 PM 12: 26



Office Memorandum

To: Mr. Donovan

August 1, 1990

From: Thiet T. Luu *TL*

Subject: Mongolia--Briefing Paper

The participation of an STA staff member in the forthcoming membership mission to Mongolia will provide a good opportunity for STA to gather valuable information on the process (organizational structure and resources employed) whereby statistics are being collected and compiled in the country. It would be also useful if the mission could obtain information on any current and planned technical assistance by other international organizations that relate to statistics. ✓

I expect that Mongolia would be similar to Lao Peoples' Democratic Republic, where in the beginning data provided by the authorities were of little reliability and substantial technical assistance would be needed to bring the data to an usable level. For the purpose of this mission, it would not be sufficient to find the way to convert the MPS national income measure to the SNA concept of GDP. The coverage of any data on national income provided by the authorities would need to be carefully reviewed first for their adequacy within the MPS system, before converting them to the GDP concept. This could be tricky, because of the distortions created by the unrealistic exchange rates and controlled prices, and as the authorities might not be able, or willing to provide the details. Usually in these centrally-planned economies, price data may not represent real conditions. I am afraid that, being an STA staff member assigned to develop the GDP data, Mr. Sukachevin would be also asked to produce some relevant price series (CPI and GDP deflator). Technical papers prepared by previous missions to Lao PDR (in which I participated) may provide some useful hints for the preparation of this mission. ✓

cc. Mr. Joyce
Mr. Sukachevin

7/2
Mr. Joyce,

*I think that Mr. Luu's pt
in decision should be reflected in the*

brief.

DD

cc. Mr. Luu,



Office Memorandum

To: Mr. Donovan

July 31, 1990

From: Ruth Lituma *Rh*

Subject: Mongolia: Draft Briefing Paper for Clearance

Attached please find for your clearance the briefing paper for the area department mission to the above-mentioned country.

Attachment

cc: Mr. McLenaghan
Mr. McLoughlin (o.r.)
Advisors
Division Chiefs

Mr. Lituma,
As discussed. More
information is needed as (a) what
are the differences between MPS and GDP; and
(b) How analogous adjusting MPS to
get to GDP. It is important that Mr.
Subochini be fully aware of what
is involved.
DD
cc. Mr. McLenaghan.



Office Memorandum

Mongolia

TO: The Managing Director
The Deputy Managing Director

July 30, 1990

FROM: Hubert Neiss *HN*

SUBJECT: Mongolian People's Republic (MPR): Membership Mission

Attached for your approval is the briefing for the membership mission to Mongolia. It has been reviewed by Messrs. Boorman (ETR), Williams (TRE), Lang (SEC), McLenaghan (STA), Lorie (FAD), and Oh (LEG).

Except for anticipated difficulties in compiling the data needed for the quota calculations, there are no exceptional issues. The World Bank plans to begin processing Mongolia's application after the Fund mission. The Asian Development Bank, which had already sent two missions, expects that Mongolia's application would be approved shortly by its Executive Board.

The general election held last Sunday (July 29)--the first multi-party election in Mongolia--has reportedly been fair and resulted in a return of the Communist Party. Secretary Baker's visit, the first such high-level contact between the U.S. and Mongolia, will take place during August 3-5.

Mr. Saito's last day in office is August 13, 1990

Attachment

cc: ETR
FAD
LEG
SEC ✓
STA ✓
TRE
Mr. P. Andrews

*cc: DD
Boyer*

1990 JUL 30 PM 3:16
BUREAU OF STATISTICS
IMMEDIATE OFFICE

(CHC) cbp0mn (7/30/90)

INTERNATIONAL MONETARY FUND

MONGOLIAN PEOPLE'S REPUBLIC

Briefing Paper - Membership Mission

Prepared by the Asian Department and the Treasurer's Department

(In consultation with the Exchange and Trade Relations,
Fiscal, Legal, Secretary's, Treasurer's Departments,
and Bureau of Statistics

Approved by P.R. Narvekar and Gerhard Laske

July 30, 1990

Following the application for membership by the Mongolian People's Republic (MPR) received by the Fund on July 10, 1990, a staff mission consisting of Mr. Saito (head), Ms. Milne, Mr. Leimone (all ASD), Messrs. Oh (LEG), Friedman (SEC), Nocera (TRE), Rozwadowski (ETR), Sukachevin (STA), and Ms. Rosario (Administrative Assistant, ASD) will visit Ulaanbaatar from August 16-31.

Mongolia has simultaneously applied for membership in the World Bank and its membership application to the Asian Development Bank 1/ will be considered shortly.

1. Tasks of the mission

The mission will:

- acquaint the authorities with the rights and obligations of membership, including, inter alia, the obligation to disclose information (under Article VIII, Section 5 of the Fund's

1/ At an informal meeting of their Executive Board, Directors with the exception of Taiwan Province of China indicated they would support the MPR's membership.

Articles of Agreement), the principles and policies governing the various Fund facilities and the Fund's programs of technical assistance;

- explain the procedural steps toward membership and the way in which the members may have its interests looked after in the Executive Board in the period between elections of Executive Directors.
- describe in detail the legal instruments (domestic legislation, memorandum of law, instrument of acceptance, full powers authorizing the instruments of acceptance, instrument of participation in the SDR Department, etc.);
- discuss in general the considerations bearing on the determination of an initial quota for a new member;
- collect and assess the basic data needed for quota calculations at headquarters under the Eighth and Ninth General Reviews, without discussing or making such calculations in the field; and
- gather the information related to Mongolia's exchange rate arrangements and external trade and payments system, in particular with respect to exchange restrictions, multiple currency practices and discriminatory currency arrangements.

The mission will also gather the economic data and information necessary to draft the membership paper and review with the authorities recent economic developments, policies for the immediate future, plans for further economic transformation in the near term, and the development strategy of the next Five-Year Plan. The impact on Mongolia's economy of the recent announcement of the Soviet Union's intention to shift to world pricing of tradables and settlement in convertible currencies will be discussed. Given the lack of information generally available, emphasis will be placed compiling a data base for the quota calculation as well as gaining greater understanding of the economic structure with emphasis on institutions and policy instruments.

2. Political background

With a rich and ancient history, Mongolia's present borders date from 1911 when it attained autonomy from China. Although it became independent in 1921, Mongolia was generally regarded as a satellite of the Soviet Union reflecting the substantial integration of economic, political and national security interests. Recognition by China at the end of the Second World War and increased bilateral relations facilitated acceptance of membership by the United Nations in 1961.

Mongolia's actions to consolidate its position as an independent country included formalizing its relations with its surrounding neighbors, as evidenced by the 1960 Treaty of Friendship and Mutual Assistance with China and the 20-year treaty with the U.S.S.R signed in 1966, and joining the CMEA in 1962. However, Soviet troops returned in 1969 as Sino-Soviet relations deteriorated. Notwithstanding the further strengthening of political and economic links with the Soviet Union during the 1970s, Mongolia continued to expand its diplomatic relations and by 1987 was recognized by over 100 countries, including the United States. In 1989, it established relations with the European Community and intensified cooperation with U.N. agencies.

In 1984, the removal of the leader of the Mongolian People's Revolutionary Party (MPRP), Tsedenbal, marked the beginning of the economic and political restructuring now taking place. Tsedenbal had held power since 1952 and his era had been characterized by political repression, restrictions on internal labor mobility and increased controls on the country's economic and social structure. The initiation

of reform was also facilitated by the improving relationship between China and the U.S.S.R. and by the Soviet Union's own steps toward internal transformation. In early 1987 agreement was reached for the phased withdrawal of Soviet forces and by May 1990 reportedly only technical and administrative personnel remained. Soviet authorities were also increasingly concerned about the drain that Mongolian aid flows (amounting to an estimated \$3 billion in the first half of the 1980s) represented to their own economy and encouraged greater Mongolian economic independence.

The Mongolian policies of "renewal" (oorchlon shinechlel) and "openness" (il tod), which are framed on the Soviet perestroika and glasnost, were adopted in 1987. Political transformation has, however, outpaced economic reform. During 1987, elections to the Great Hural (People's Assembly) were opened to non-MPRP candidates. In December 1988, the plenum of the MPRP acted to restructure the 40 ministries and departments as the size of the bureaucracy was seen as an impediment to reform. The following year, the formation of new independent political parties was permitted. In early 1990, a draft reform of the Constitution was prepared and submitted for national discussion; the new provisions eliminate references to the central role of the MPRP, recognize the new political pluralism, and provide for direct presidential elections. Multiparty general elections, the first in Mongolia's history, will be completed on July 29. It is expected that the MPRP, will continue to dominate the Assembly. Until the constitutional amendments are effected, the Great Hural will elect the President.

3. Economic background

a. Evolution

From independence, Mongolia's economic structure has reflected the predominant role of the Soviet Union as the economy was transformed from a peasant feudal system that functioned without a domestic currency to a centrally-planned command economy. In the 1920s, a gold-backed note (tugrik) was circulated and economic activity expanded with the establishment of Soviet joint venture companies in the areas of finance, transportation and trade. Private ownership was abolished. The 1950s ushered in a era of intensive collectivization of herds and agricultural production. Links to the U.S.S.R. strengthened further with the completion of the trans-Mongolian railway in 1955. Soviet aid contributed significantly to the industrialization of the 1960s, mainly for the processing of agricultural products and animal hides, and to the exploitation of mineral resources through joint venture companies in the 1970s. It is estimated that gross industrial production rose nearly fivefold between 1960 and 1980; however, agricultural output remained stagnant with grain production and the number of livestock at the same levels in 1980 as in 1965.

While the history of the Tsedenbal era is now just being revisited, recent reports indicate that the early 1980s were characterized by slow economic growth, a declining output/capital ratio and mounting domestic economic pressures. The disparity between urban and rural incomes widened, increasing the incentive for migration to the cities. This migration, combined with an accelerated growth of population,

contributed to housing problems, shortages of foodstuffs and consumer goods, and rising unemployment.

b. Present structure

A landlocked country surrounded by the Soviet Union to the north and China to the east, west, and south, the Mongolian economy remains heavily dependent on agriculture, animal husbandry, and mining. Total population is estimated at 2.05 million, of whom 70 percent are less than 30 years of age and one quarter are located in the capital city. Industrial development has been concentrated in the north, while in the south the traditional nomadic lifestyle has been sustained. With a vast land area (1.6 million square kilometers, slightly less than the size of continental Europe), population density is low, resulting in thin as well as fragmented internal markets. Estimates of per capita income vary widely (from US\$450 to US\$2,000), reflecting the difficulties in translating Mongolia's net material product (NMP) into gross national product as well as determining the appropriate rates of exchange for the U.S. dollar against the transferable ruble and the tugrik. Controlled domestic prices and wages, an overvalued tugrik, and barter trade transactions effected at negotiated shadow prices add to the distortions.

As is the case in other centrally planned economies, virtually all economic activity is controlled by the State with the state budget accounting for almost three quarters of NMP. Central government revenues depend primarily on turnover taxes levied on state enterprises and joint ventures, while expenditures are determined by the level of

external and domestic resources. All banking and credit operations are vested with the State Bank which fully accommodates the credit needs of the public sector and the cooperatives. Interest rates are set low and the Council of Ministers retains the power to change both the term structure and the interest rate including on loans already extended. Reflecting accommodating monetary policy, it was estimated that by early 1990 about one half of the 255 agricultural cooperatives had incurred substantial domestic bank debt and 60 percent of these were unable to meet debt service obligations.

External trade continues to be dominated by the U.S.S.R., which accounts for about 80 percent of transactions while other CMEA countries account for about 17 percent; the remaining 3 percent represents hard currency trade, of which trade with Japan accounts for about 40 percent. Transactions with the CMEA countries have been traditionally in the form of bilateral barter arrangements, with trade deficits recorded as debt and debt service payments are made in terms of goods. Outstanding external debt is currently estimated at 10.5 billion rubles, of which debt to the U.S.S.R. is 9.5 billion rubles. The rate of exchange of the tugrik was fixed at Tg 4.4 per ruble in 1963 remaining unchanged thereafter (giving a cross rate of Tg 2.9975 per U.S. dollar using the official ruble/dollar rate). In 1988, a preferential rate of Tg 20 per dollar was legalized for foreign exchange surrender by Mongolian nationals to the State Bank; a "black market" rate of Tg 25 per dollar has been reported.

4. Recent economic reforms ^{1/}

While nominally the reform movement dates from 1987, only tentative steps were initiated aimed primarily at reducing the level and size of bureaucracy and improving the efficiency of state enterprises. In 1988, differential pay scales dependent on enterprise revenue were introduced. In January 1989, a new Law on State Enterprises was passed that placed greater emphasis on the financial autonomy of individual factories and by late 1989, labor strikes related to wages and housing conditions were tacitly accepted.

The pace of economic reform accelerated in 1990. To stimulate agricultural production, a new Law on Cooperatives became effective and provision was made for greater ownership of herds outside state control. Bank debts of agricultural cooperatives were restructured with one third of outstanding credit written off and the remainder rescheduled at a zero interest rate for payment in the year 2000. Preliminary steps toward the introduction of market mechanisms were taken including limited price reform, whereby prices would be set as a result of bilateral negotiations between producers and consumers, subject to government regulation. In addition, the new Five-Year Plan (covering the period 1991-95) is being elaborated using only indicative physical targets of key variables and resource allocation is to be left to the individual firms, on the basis of negotiated prices. In April, the municipality of Ulaanbaatar announced that house sales to establishments and organizations would be permitted.

^{1/} The discussion of recent developments relies heavily on the findings of the June mission of the Asian Development Bank.

The authorities continued efforts to improve the efficiency of the Government by further rationalizing the number of ministries, resulting in a 30 percent reduction in the wage bill. Special separation grants were introduced to encourage early retirement. A number of measures were taken to improve workers' benefits. Pension regulations were amended to allow full pension payment for those eligible but who continue to work; rural pensions were raised; and paid maternity and child care leave were introduced. Some cooperatives reduced the work-week from seven to five days, an action which is expected to increase employment opportunities.

To stimulate investment and diversify the economic base, a new Law of Foreign Investment was promulgated and came into effect in May. Liberalization of foreign investment, including exemption from customs duties, aims at diversifying Mongolia's productive base and new investment in export-oriented and import-substituting industries will be given priority. Initial response has been encouraging with possible joint ventures with Japan, China and Singapore mentioned. Finally, preliminary steps were taken toward reducing the external debt burden with the establishment of a Soviet-Mongolian Working Group. The Mongolians are pressing for consideration under the 100-year Soviet debt moratorium being offered to less developed countries.

The measures implemented to date appear to have had some modest impact on agricultural output and the herd size is reportedly increasing. However, the restructuring of the public sector is

exacerbating unemployment and price liberalization, even though limited, has resulted in higher prices. Inflation is now seen as an emerging problem.

Table 1: Mongolian People's Republic: Basic Data

Geographic and social indicators

Area (million sq. km.)	1.565
Population: Total (1990, estimated)	2.1 mn.
(Growth rate, 1980-86)	(2.8 percent)
Urban (share of total)	51 percent
Population density (population/sq/km., 1988)	1.3
Life expectancy at birth	65 years
Infant mortality (under 1 year)	46 per 1,000

Economic indicators

(Share of total, percent)

Net material product (1988)	100.0
Industry	32.9
Agriculture	19.1
Construction	7.8
Transport	10.1
Communication	1.6
Trade, supply and procurement	27.0
Other	1.8

	1987	1988	1989 Est.
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(In millions of tugriks)

Net material product	7,478	7,900	...
(Percent change)	3	6	...

Government budget

Revenue	6,209	6,675	6,970
Turnover tax	4,101	4,342	4,429
Profit transfers	1,661	1,877	2,043
Other	447	456	498
Expenditure	6,199	6,670	6,970
Of which: Development	3,151

(In millions of U.S. dollars) 1/

External

Exports	...	774	774
Imports	...	1,166	1,073

External debt

CMEA		16,406
Of which: U.S.S.R.		14,844

Official exchange rate
(as at July 31, 1990)

Tg. 2.9975 per U.S. dollar

Sources: United Nations; Asian Development Bank; and "The Europa World Year Book, 1989" (Europa Publications Limited).

1/ At the IBEC (International Bank for Economic Cooperation) ruble/dollar rate of 0.64 which is considered to be highly overvalued.



Office Memorandum

TO: Mr. Boorman (ETR)
 Mr. Van Houtven (SEC)
 Mr. Tanzi (FAD)
 Mr. Laske (TRE)
 Mr. Gianviti (LEG)
 Mr. McLanaghan (STA) ✓

July 25, 1990

FROM: Kunio Saito *[Handwritten initials]*

SUBJECT: Mongolia--Draft Briefing Paper

Please find attached the draft briefing paper for the membership mission to Mongolia (August 13-27, 1990). I would appreciate your comments by noon, Friday, July 27 and apologize for the short notice.

Attachment

cc: Mr. Narvekar
 Mr. Neiss

cc: Mr. Narvekar (w/enc) (to reply)

Called Mr. Saito 7/27/90 9:52 a.m.

1990 JUL 25 PM 3:34
 BUREAU OF ECONOMIC RESEARCH

(CHC) cbp0mn (7/25/90)

INTERNATIONAL MONETARY FUND

Briefing Paper: Staff Mission to the Mongolian People's Republic

Prepared by the Asian Department

(In consultation with the Exchange and Trade Relations, Bureau of Statistics, Legal, Secretary's, and Treasurer's Departments)

Approved by P.R. Narvekar and Gerhard Laske

July , 1990

Following the application for membership by the Mongolian People's Republic (MPR) on June 26, 1990, a staff mission consisting of Mr. Saito (head), Ms. Milne, Mr. Leimone (all ASD), Messrs. Oh (LEG), Friedman (SEC), Nocera (TRE), Rozwadowski (ETR), Sukachevin (STA), and Ms. Rosario (Administrative Assistant, ASD) will visit Ulaanbaatar from August 13-27. 1/ The mission will gather the data necessary for the calculation of the quota as well as acquaint the authorities with the legal, financial, and procedural steps toward membership and the rights and obligations of membership.

Mongolia has simultaneously requested membership in the World Bank and its membership application to the Asian Development Bank will be considered shortly.

1. Political background

With a rich and ancient history, Mongolia's present borders date from 1911 when it attained autonomy from China. Although it became

1/ Because of logistical difficulties, two mission members will be sent in advance to Beijing, People's Republic of China in order to secure the necessary travel documents for the flight to Ulaanbaatar.

independent in 1921, Mongolia was generally regarded as a satellite of the Soviet Union reflecting the substantial integration of economic, political and national security interests. Recognition by China at the end of the Second World War and increased bilateral relations facilitated acceptance of membership by the United Nations in 1961. Mongolia's actions to consolidate its position as an independent country included formalizing its relations with its surrounding neighbors, as evidenced by the 1960 Treaty of Friendship and Mutual Assistance with China and the 20-year treaty with the U.S.S.R signed in 1966, and joining the CMEA in 1962. However, Soviet troops returned in 1969 as Sino-Soviet relations deteriorated. Notwithstanding the further strengthening of political and economic links with the Soviet Union during the 1970s, Mongolia continued to expand its diplomatic relations and by 1987 was recognized by over 100 countries, including the United States. In 1989, it rejoined the Group of 77, established relations with the European Community and intensified cooperation with U.N. agencies.

In 1984, the removal of the leader of the Mongolian People's Revolutionary Party (MPRP), Tsedenbal, marked the beginning of the economic and political restructuring now taking place. Tsedenbal had held power since 1952 and his era had been characterized by political repression, restrictions on internal labor mobility and increased controls on the country's economic and social structure. The initiation of reform was also facilitated by the improving relationship between China and the U.S.S.R. and by the Soviet Union's own steps toward

internal transformation. In early 1987 agreement was reached for the phased withdrawal of Soviet forces and by May 1990 reportedly only technical and administrative personnel remained. Soviet authorities were also increasingly concerned about the drain that Mongolian aid flows (amounting to an estimated \$3 billion in the first half of the 1980s) represented to their own economy and encouraged greater Mongolian economic independence.

The Mongolian policies of "renewal" (oorchlon shinechlel) and "openness" (il tod), which are framed on the Soviet perestroika and glasnost, were adopted in 1987. Political transformation has, however, outpaced economic reform. During 1987, elections to the Great Hural (People's Assembly) were opened to non-MPRP candidates. In December 1988, the plenum of the MPRP acted to restructure the 40 ministries and departments as the size of the bureaucracy was seen as an impediment to reform. The following year, the formation of new independent political parties was permitted. In early 1990, a draft reform of the Constitution was prepared and submitted for national discussion; the new provisions eliminate references to the central role of the MPRP, recognize the new political pluralism, and provide for direct presidential elections. Multiparty general elections, the first in Mongolia's history, will take place on July 29. It is expected that the MPRP, which won the first-round balloting held on July 22, will continue to dominate the Assembly. Until the constitutional amendments are effected, the Great Hural will elect the President.

2. Economic background

a. Evolution

From independence, Mongolia's economic structure has reflected the predominant role of the Soviet Union as the economy was transformed from a peasant feudal system that functioned without a domestic currency to a centrally-planned command economy. In the 1920s, a gold-backed note (tugrik) was circulated and economic activity expanded with the establishment of Soviet joint venture companies in the areas of finance, transportation and trade. Private ownership was abolished. The 1950s ushered in a era of intensive collectivization of herds and agricultural production. Links to the U.S.S.R. strengthened further with the completion of the trans-Mongolian railway in 1955. Soviet aid contributed significantly to the industrialization of the 1960s, mainly for the processing of agricultural products and animal hides, and to the exploitation of mineral resources through joint venture companies in the 1970s. It is estimated that gross industrial production rose nearly fivefold between 1960 and 1980; however, agricultural output remained stagnant with grain production and the number of livestock at the same levels in 1980 as in 1965.

While the history of the Tsedenbal era is now just being revisited, recent reports indicate that the early 1980s were characterized by slow economic growth, a declining output/capital ratio and mounting domestic pressures. The disparity between urban and rural incomes widened, increasing the incentive for migration to the cities. This migration, combined with an accelerated growth of population, contributed to

housing problems, shortages of foodstuffs and consumer goods, and rising unemployment.

b. Present structure

A landlocked country surrounded by the Soviet Union to the north and China to the east, west, and south, the Mongolian economy remains heavily dependent on agriculture, animal husbandry, and mining. Total population is estimated at 2.05 million, of whom 70 percent are less than 30 years of age and one quarter are located in the capital city. Industrial development has been concentrated in the north, while in the south the traditional nomadic lifestyle has been sustained. With a vast land area (1.6 million square kilometers, about the size of Western Europe), population density is low, resulting in thin as well as fragmented internal markets. Estimates of per capita income vary widely (from US\$450 to US\$2,000), reflecting the difficulties in translating Mongolia's net material product into gross national product as well as determining the appropriate rate of dollar exchange for the convertible ruble in the case of Mongolia. Controlled domestic prices and wages, an overvalued tugrik, and barter trade transactions effected at negotiated shadow prices add to the distortions.

As is the case in other centrally planned economies, virtually all economic activity is controlled by the State with the state budget accounting for almost three quarters of national income. Central government revenues depend primarily on turnover taxes levied on state enterprises and joint ventures, while expenditures are determined by the level of external and domestic resources. All banking and credit

operations are vested with the State Bank which functions mainly to meet the credit demands of the public sector and the cooperatives. Interest rates are set low and the Council of Ministers retains the power to change both the term structure and the interest rate including on loans already extended. Despite accommodating monetary policy, it was estimated that by early 1990 about one half of the 255 agricultural cooperatives had incurred substantial bank debt and 60 percent of these were unable to meet debt service obligations.

External trade continues to be dominated by the U.S.S.R., which accounts for about 80 percent of transactions while other CMEA countries account for about 17 percent; the remaining 3 percent represents hard currency trade, of which trade with Japan accounts for about 40 percent. Transactions with the CMEA countries have been traditionally in the form of bilateral barter arrangements. Trade deficits are recorded as debt and debt service payments are made in terms of goods. Reflecting the large trade deficits recorded in the 1980s, outstanding external foreign debt is currently estimated at 10.5 billion rubles, of which debt to the U.S.S.R. is 9.5 billion rubles. 1/ The rate of exchange of the tugrik was fixed at Tg 4.4 per ruble in 1963 remaining unchanged thereafter (giving a cross rate of Tg 2.9975 per U.S. dollar using the official IBEC ruble/dollar rate). In 1988, a preferential rate of Tg 20 per dollar was legalized for foreign exchange surrender by Mongolian nationals to the State Bank; a "black market" rate of Tg 25 per dollar has been recorded.

1/ This figure is disputed by the Mongolian authorities; however, their own records do not extend back before 1960.

3. Recent economic reforms ^{1/}

While nominally the reform movement dates from 1987, only tentative steps were initiated aimed primarily at reducing the level and size of bureaucracy and improving the efficiency of state enterprises. In 1988, differential pay scales dependent on enterprise revenue were introduced. In January 1989, a new Law on State Enterprises was passed that placed greater emphasis on the financial autonomy of individual factories and by late 1989, labor strikes related to wages and housing conditions were tacitly accepted.

The pace of economic reform accelerated in 1990. To stimulate agricultural production, a new Law on Cooperatives became effective and provision was made for greater ownership of herds outside state control. Bank debts of agricultural cooperatives were restructured with one third of outstanding credit written off and the remainder rescheduled at a zero interest rate for payment in the year 2000. Preliminary steps toward the introduction of market mechanisms were taken including limited price reform, whereby prices would be set as a result of bilateral negotiations between producers and consumers, subject to government regulation. In addition, the new Five-Year Plan (covering the period 1991-95) is being elaborated using only indicative physical targets of key variables and resource allocation is to be left to the individual firms, on the basis of negotiated prices. In April, the municipality of Ulaanbaatar announced that house sales to establishments and organizations would be permitted.

^{1/} The discussion of recent developments relies heavily on the findings of the June mission of the Asian Development Bank.

The authorities continued efforts to improve the efficiency of the Government by further rationalizing the number of ministries, resulting in a 30 percent reduction in the wage bill. To ease the impact on workers, special separation grants were introduced and early retirement encouraged; pension regulations were amended to allow full pension payment for those eligible but who continue to work; and rural pensions were raised. Paid maternity and child care leave were introduced. Some cooperatives reduced the work-week from seven to five days.

To stimulate investment and diversify the economic base, a new Law of Foreign Investment was promulgated and came into effect in May. Liberalization of foreign investment, including exemption from customs duties, aims at diversifying Mongolia's productive base and new investment in export-oriented and import-substituting industries will be given priority. Initial response has been encouraging with possible joint ventures with Japan, China and Singapore mentioned. Finally, preliminary steps were taken toward resolving the external debt problem with the establishment of a Soviet-Mongolian Working Group. The Mongolians are pressing for consideration under the 100-year Soviet debt moratorium being offered to less developed countries.

The measures implemented to date appear to have had some modest impact on agricultural output and the herd size is reportedly increasing. However, the restructuring of the public sector is exacerbating unemployment and price liberalization, even though limited, has resulted in higher prices. Inflation is now seen as an emerging problem.

4. Topics for discussion

The mission will collect and assess the basic data needed to make quota calculations under the Eighth and Ninth Reviews. It will be prepared to discuss the considerations bearing on the determination of an initial quota for a new member, without quantification or discussion of the quota for Mongolia. The final quota calculations will be made at headquarters. Legal and procedural steps that would lead to membership will be explained and detailed discussions on the functions and policies of the Fund as well as the rights and obligations of members will be held. Particular attention will be given to member's obligation to disclose information under Article VIII, Section 5 of the Fund's Articles of Agreement. In addition, legal instruments (such as domestic legislation, memorandum of law, instrument of acceptance, instrument of participation in the SDR Department, etc.) needed to effect membership will be described in detail. The mission will gather information related to exchange restrictions, multiple currency practices and discriminatory currency arrangements. The mission will also discuss general matters related to Fund membership including the various facilities of the Fund; the principles and policies governing these facilities; and the Fund's programs of technical assistance.

The mission will gather the economic information necessary to draft the membership paper and review with the authorities recent economic developments, policies for the remainder of 1990, plans for further economic transformation in the near term, and the development strategy of the next Five-Year Plan. The impact, if any, on Mongolia's external

viability of the recent announcement of the Soviet Union's intention to shift to world pricing of tradables and convertible currency trade will be discussed. Given the lack of information generally available, emphasis will be placed on gaining greater understanding of the economic structure, focusing on institutions and policy instruments.

Table 1: Mongolian People's Republic: Basic Data

Geographic and social indicators

Area (million sq. km.)	1.565
Population: Total (1990, estimated)	2.1 mn.
(Growth rate, 1980-86)	(2.8 percent)
Urban (share of total)	51 percent
Population density (population/sq/km., 1988)	1.3
Life expectancy at birth	65 years
Infant mortality (under 1 year)	46 per 1,000

Economic indicators

(Share of total, percent)

Net material product (1988)	100.0
Industry	32.9
Agriculture	19.1
Construction	7.8
Transport	10.1
Communication	1.6
Trade, supply and procurement	27.0
Other	1.8

	1987	1988	1989
			Est.

(In millions of tugriks)

Net material product	7,478	7,900	...
(Percent change)	3	6	...

Government budget

Revenue	6,209	6,675	6,970
Turnover tax	4,101	4,342	4,429
Profit transfers	1,661	1,877	2,043
Other	447	456	498
Expenditure	6,199	6,670	6,970
Of which: Development	3,151

(In millions of U.S. dollars) 1/External

Exports	...	774	774
Imports	...	1,166	1,073

External debt

CMEA		16,406
Of which: U.S.S.R.		14,844

Official exchange rate
(as at July 31, 1990)

Tg. 2.9975 per U.S. dollar

Sources: United Nations; Asian Development Bank; and "The Europa World Year Book, 1989" (Europa Publications Limited).

1/ At the IBEC ruble/dollar rate of 0.64 which is considered to be highly overvalued.

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		16	MR. JOHN LEIMONE	SENIOR ECONOMIST			UNITED STATES
		15		ASIAN DEPARTMENT			
		14	MR. FRANEK ROZWADOWSKI	ECONOMIST			SWAZILAND
		13		EXCHANGE AND TRADE			
		12		RELATIONS DEPARTMENT			
		11	MR. JAI KEUN OH	SENIOR COUNSEL			KOREA
		10		LEGAL DEPARTMENT			
		9	MR. SIMON NOCERA	ECONOMIST			ITALY
		8		TREASURER'S DEPARTMENT			
		7	MR. KENNETH FRIEDMAN	DEPUTY DIVISION			
		6		CHIEF			UNITED STATES
		5		SECRETARY'S DEPARTMENT			
		4	MR. PADEJ SUKACHEVIN	ECONOMIST			THAILAND
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18 AMPARO S. ROSARIO ADMINISTRATIVE
17 ASSISTANT PHILIPPINES
16 ASIAN DEPARTMENT
15 (CCC) WE HAVE ASKED AMBASSADOR NYAMDOO TO CARRY A
14 NOTE THAT PRESENTS THE MISSION'S REQUEST FOR MEETINGS,
13 DOCUMENTS, AND DATA, AS WELL AS ASSISTANCE WITH
12 LOGISTICAL ARRANGEMENTS. I REALIZE THAT SOME OF THE
11 REQUESTS ARE DIFFICULT TO MEET WITHIN A RELATIVELY SHORT
10 PERIOD, BUT IT WOULD BE GREATLY APPRECIATED IF YOU COULD
9 PROVIDE THE MISSION WITH AS MUCH INFORMATION AS POSSIBLE
8 ON ITS ARRIVAL IN ULAANBAATAR. THIS IS ESSENTIAL TO
7 FACILITATE THE MISSION'S WORK AND EXPEDITE THE
6 PROCESSING OF YOUR MEMBERSHIP APPLICATION.
5 (DDD) IN THIS RESPECT, I ASSURE YOU THAT WE WILL
4 MAKE OUR BEST EFFORTS AND I AM CONFIDENT THAT WE CAN
3 HAVE YOUR FULL COOPERATION.
2 (EEE) WOULD APPRECIATE RECEIVING YOUR TELEX
1 CONFIRMATION SOONEST THAT THE PROPOSED MISSION DATES--

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	14	DIRECTOR			
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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

Ms. Suba Kumari

F

CABLE ADDRESS
INTERFUND

July 19, 1990

Dear Ambassador Nyamdoo:

Re: Mongolia--Membership Mission

1. Attached is a note on the meetings, documents, and data that the staff team (mission) would like to request in connection with its forthcoming visit to Ulaanbaatar during August 13-27. As agreed earlier, we request your kind assistance in carrying this note to appropriate officials in Ulaanbaatar. A formal communication from Mr. Narvekar to Finance Minister Bazarkhuu will be telexed in due course.

2. We are trying through Thomas Cook Travel Agency (both in Washington, D.C., and Beijing offices) and Jhulchin (Mongolian Travel Agency) to obtain:

a. airline (MIAT) reservations for nine people on August 13 (Monday) from Beijing to Ulaanbaatar and on August 27 (Monday) from Ulaanbaatar to Beijing; and

b. reservations at Hotel Ulaanbaatar for nine suites during August 13-27.

We would appreciate it if the authorities could follow up these arrangements from the Mongolian end.

3. We would also appreciate the authorities' assistance on our arrival at the airport in Ulaanbaatar on August 13 (Monday).

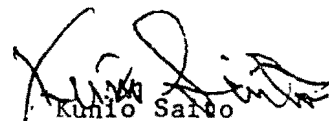
4. It would be useful if the authorities could inform us of the name of a liaison person, who can communicate with us about arrival arrangements and other technical matters, (as well as any questions regarding the accompanying note). For this purpose, I can be reached directly:

Kunio Saito
Deputy Director
Asian Department
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Tel. No. (202) 623-7450
Telex No. 248331 IMF UR
Facsimile No. (202) 623-4661

5. We will be approaching Mr. Sandag some time next week about our entry visas to Mongolia.

Very truly yours,



Kunio Saito
Deputy Director
Asian Department

His Excellency
Gendengin Nyamdo
Embassy of the Mongolian People's Republic
10201 Iron Gate Road
Potomac, Maryland 20854

(CHC) cqs0mn (7/19/90)

MONGOLIA

Note on the requested meetings, documents,
brief notes and data

The staff team ("the mission") of the International Monetary Fund, which will be visiting Ulaanbaatar for a period of about two weeks beginning August 13, 1990 will seek to (i) acquaint the authorities with the legal, financial and procedural issues of membership in addition to describing the rights and obligations that Mongolia will assume upon joining the International Monetary Fund; (ii) collect the financial and economic data necessary for the calculation of Mongolia's capital subscription ("quota") to the Fund upon joining; and (iii) obtain information on the institutional structure of the Government, public enterprise and banking institutions, as well as on external trade arrangements (including details of bilateral conventions), the exchange rate system and restrictions on external current and capital transactions, and the reforms that have already been introduced and those that are being planned.

I. Meetings

Accordingly, we would greatly appreciate having a series of meetings with senior government officials. It would be useful if we could meet on the first working day with the Minister of Finance and the Chairman of the State Bank in order to begin our dialogue; further meetings will be needed later but these can be scheduled depending on the progress of the work. Courtesy calls on the President of Mongolia, the Chairman of the Council of Ministers and the President of the Great Hural would be welcomed if possible. We would also request that meetings with the following Ministers be included in the program for the first week:

1. Minister of Trade and Cooperation
2. Minister of Heavy Industry
3. Minister of Agriculture, Light, and Food Industry
4. Minister of Construction
5. Chairman, State Statistical Office
6. Chairman, State Committee for Economic and Social Development

Furthermore, the mission will need to hold extensive meetings with your technical and legal staff to clarify our understandings of the Mongolian economy. These meetings will have to cover the areas of:

(i) legal aspects of the Constitution, State Bank and the government budget to ensure that the framework required to permit membership is in place or can be adopted; (ii) economic data including monetary, government budget and operations of selected large public enterprises, and foreign trade and exchange; and (iii) instruments of economic management (for example taxation, public sector investment planning, interest rates, exchange rates, tariff and trade licensing systems). Also, a few meetings with the representatives of the largest public sector enterprises including the State Trading Corporation would be useful. Finally, we would appreciate meetings with embassy personnel of the main donor and trading partner countries of Mongolia as well as the United Nations Representative.

II. Documents

We would appreciate having the documentation in English if possible, or if not, a Russian translation or the original Mongolian.

1. The Constitution of the Mongolian People's Republic (as recently amended).
2. A copy of laws which provide for the conclusion of international treaties (how and by whom).
3. Laws which provide the basis for regulating and controlling the purchase and sale of foreign currencies.
4. Laws which establish the State Bank of Mongolia and define its powers.
5. The recently approved investment law.
6. National Economy of the MPR for 60 Years (1924-84), 1984, Ulan Bator, Central Statistical Board.
7. Seventh Central Plan, 1981-85; Eighth Central Plan, 1986-90.
8. The most recent government budget document.
9. The most recent statistical yearbook.
10. A list of state enterprises grouped by type of product or service. Please include a description of the various legal forms that state enterprises may take.

III. Brief Notes

1. A brief note describing the basic organizational structure of the Government and of the functions of the most important economic ministries and government agencies, including the Ministry of Finance, the State Bank, the State Committee for Social Development, the State Bank of Mongolia, the Ministry of Foreign Trade, the State Statistical Office, the Commission for External Economic Relations, and the Agency responsible for formulating the economic plan.

2. A brief note describing the process for formulating and carrying out the national economic plan.

3. A list and brief note on the most important economic liberalization measures taken since 1985.

4. A brief note describing the most important trade agreements or protocols with other countries or groups of countries, including the periods covered, the types of goods (or services) involved, the maximum quantities of each type of good or service agreed upon and the actual transactions that have taken place in each of the most recent five years, and the prices and exchange rates assigned to each type of good or service under the agreement.

5. A brief note describing the foreign exchange and external trade system. This should include the number of exchange rates for the tugrik, whether official or unofficial, the mechanisms for determining exchange rates, taxes or subsidies on purchases or sales of other currencies, the rules and regulations governing the purchase and sale of other currencies (including transactions related to exports or imports of goods, payment of interest, dividends, debt, transfer abroad of wages earned by foreigners working in Mongolia, or receipts for similar purposes) and gold, and regulations governing resident holdings of foreign currencies or bank deposits and nonresident holdings of domestic currency or bank deposits and the mechanism for administering these rules and regulations. The description of the external trade system should cover regulations governing restrictions on exports and imports, taxes or subsidies associated with these transactions, and the process of determining and reviewing policy on foreign trade. The description should also cover rules and regulations covering capital flows (loans to or investment in Mongolia by foreigners, repayments of loans, and loans to or investments in foreign countries by Mongolian residents, including government agencies.)

6. A brief note on the system for determining prices, including mechanisms for enforcing price controls, and the relationship between determination of domestic prices and exchange rates.

7. A brief note on the system for determining wages, pensions, and other wage-related benefits and subsidies to workers.

IV. Data

Please provide data for the attached tables indicated below, which are essential for the quota calculation. In addition, please provide annual data for the following concepts covering the years 1985-89, and if possible the years 1980-84. It would be appreciated if these data could be provided to the mission on arrival.

1. Data for national income and expenditure accounts and its composition. Please provide data for Table 1 (attached) and extended through 1989. In order to assist you with the calculations of gross domestic product (GDP), please provide for the period 1979-89 data on: net material product (by output sector, if possible); nonmaterial services (by sector, if possible); investment in fixed capital, depreciation of capital stock, changes in stocks (inventories); and net factor payments abroad (i.e., payments of interest, dividends, profits to foreign residents outside Mongolia, less receipts in Mongolia from Mongolian residents living abroad).

Please provide information on the volume and value of production for the most important types of agricultural products, production and slaughter of livestock, the most important mineral products, manufacturing sectors, and electricity.

2. Data on external trade and balance of payments. Please provide data for Table 2A, Table 2B, and Table 2C (attached) and foreign exchange rate data for Table 3 (attached). In addition, for each category of countries for the convertible, CMEA and other categories, please indicate whether exports used for payment in kind of interest, debt principle, or for other purposes are included in total exports and if imports which are received as foreign aid grants are included in total imports; if not, please specify separately. Also, please provide data on inflows of loans and investments from foreign countries, repayments of principal on such loans, outflows of loans to and investments in foreign countries. For such capital transactions, please distinguish between CMEA countries, other countries involving bilateral trading arrangements, and all other countries.

Please indicate what exchange rate (tugrik/convertible ruble; tugrik/U.S. dollar) are applicable, both average exchange rates for the year and the exchange rate prevailing at the end of each year, for each category of trade and capital transactions.

3. Data on the international reserves of the State Bank of Mongolia. Please provide data requested in Table 4 (attached). Also, please provide information for these same items for the years ending 1980-89. In addition, please provide data on State Bank loans received from foreign countries for each year 1985-89 and, if possible for 1980-85. Please distinguish between State Bank foreign assets and loans from

abroad by those less than one year to maturity and those with a maturity of one year or more.

4. Data on external debt. Please indicate the stock of debt to foreigners residing outside Mongolia by type of debtor (central government, state enterprises, the State Bank of Mongolia, and other), by major creditor countries, by currency, and by type of creditor (governments, banks, other). Please indicate the exchange rate used to convert debts to tugrik at the end of each year.

5. Data on revenues, expenditures, and financing of the central government for 1985-89. Please indicate the sources of tax and nontax revenues (including dividends and nontax transfers from state enterprises), and the types of current expenditures (including wages, pensions, interest payments, and subsidies paid) and capital expenditures (investment in fixed capital, onlending to public enterprises, and loans made to the cooperatives and to joint ventures, if not included under ministries). Please indicate amounts of financing in tugrik (from the State Bank) and from foreign sources, and any changes in cash balances (currency or bank deposits). Are any revenues and expenditures denominated in foreign currencies? In all foreign currency transactions, please provide the average rate of exchange utilized. Is CMEA commodity assistance fully reflected in the Government Account?

Data, if available, for the ten largest nonfinancial public enterprises for 1985-89 on a consolidated basis. Please provide revenues by source (sales, subsidies received, interest received, and other); expenditures by type, current (wages, pensions, taxes, transfers, purchases of goods and services, interest paid, and other); and capital (investments in fixed capital, loans to and investments in other entities). Also, please provide data on receipts from repayments of loans made or sales of capital assets and investments. Please provide data on financing of the nonfinancial enterprises similar to data requested on financing of the central government.

6. Data on the composition of loans and deposits extended by the State Bank for 1985-89 (central government, local governments, state enterprises, foreign residents outside Mongolia, and other), currency issues, and the composition of other assets and liabilities (including capital). Please indicate what loans, deposits, and other balance sheet items are denominated in foreign currency and indicate the rate of exchange used to convert these items to tugrik. Please provide five-year series of interest rates on the most important types of loans and deposits.

7. Data on consumer and wholesale prices (monthly, if possible), by components. If a price index is calculated, please provide weights for each component. Also any information on wage rates and pension payments and their changes.

8. Data on population, working age of population, and employment, total and by productive sectors.

Table 1. Mongolia - Data Required for Quota Calculation

(Gross Domestic Product)

	Net Material Product (1)	GDP (2)
	<u>(in current Tughrig)</u>	
1978		
1979		
1980		
1981		
1982		
1983		
1984		
1985		
1986		

Table 2A. Mongolia - Data Required for Quota Calculations: Current Receipts and Payments, 1968-86
Under Clearing Bilateral Agreements

(In millions of tugrik)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
<u>Current Receipts</u>																			
Exports of goods, f.o.b.																			
Services:																			
of which: Shipments																			
Travel																			
Interest receipts																			
Other																			
Private transfers ^{1/}																			
<u>Current Payments</u>																			
Imports of goods, f.o.b.																			
Services:																			
of which: Shipments																			
Travel																			
Interest paid																			
Other																			
Private transfers																			
<u>Memorandum Item</u>																			
Conversion rate used																			
(-Tugrik/U.S.\$)																			
(-Tugrik/transferable ruble)																			

Table 2B. Mongolia - Data Required for Quota Calculations: Current Receipts and Payments, 1968-86
In Convertible Currencies

(In millions of tughrík)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
--	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------

Current Receipts

Exports of goods, f.o.b.

Services:

of which: Shipments
Travel
Interest
receipts
Other

Private transfers 1/

Current Payments

Imports of goods, f.o.b.

Services:

of which: Shipments
Travel
Interest paid
Other

Private transfers

Memorandum Item

Conversion rate used

(-Tughrík/U.S.\$)

(-Tughrík/transferable ruble)

Source:

Table 2C. Mongolia - Data Required for Quota Calculations: Current Receipts and Payments, 1968-86
with CMEA

(In millions of tughrík)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
--	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------

Current Receipts

Exports of goods, f.o.b.

Services:

of which: Shipments
Travel
Interest receipts
Other

Private transfers 1/

Current Payments

Imports of goods, f.o.b.

Services:

of which: Shipments
Travel
Interest paid
Other

Private transfers

Memorandum Item

Conversion rate used

(-Tughrík/U.S.\$)

(-Tughrík/transferable ruble)

Source:

Table 3. Mongolia - Data Required for Quota Calculation: Exchange Rates, 1968-86

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
--	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------

Average per Period

(In tugrik per 100 U.S.\$)

Commercial rate
 Noncommercial rate
 Parallel market rate

(In tugrik per 100 transferable rubles)

Commercial rate

(In tugrik per 100 Soviet rubles)

Noncommercial rate

Others:

End-Period

(In tugrik per 100 U.S.\$)

Commercial rate
 Noncommercial rate
 Parallel market rate

(In tugrik per 100 transferable rubles)

Commercial rate

(In tugrik per 100 Soviet rubles)

Noncommercial rate

Others:

LETTER OF APPLICATION

Ulaanbaatar,
26th June, 1990

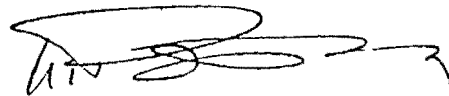
Dear Sir,

I have the honour, under the instructions received from my Government, to submit to you herewith the application of the Government of the Mongolian People's Republic for membership in the International Monetary Fund.

Mr. A. Bazarkhuu, Minister of Finance has been authorized and directed to conduct, on behalf of the Government of the Mongolian People's Republic, the negotiations with the Fund regarding this application and to transmit to you any information which you may require in the consideration of this request.

I add for your information that on 26th of June 1990 I have also filed, on behalf of my Government, an application for membership of the Mongolian People's Republic in the International Bank for Reconstruction and Development, the International Finance Corporation and the International Development Association.

Sincerely yours



TSERENPILIIN GOMBOSUREN
MINISTER FOR FOREIGN AFFAIRS
OF THE MONGOLIAN PEOPLE'S
REPUBLIC

MR. M. CAMDESSUS
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

MCLLENAGHAN, John B. 0401
RM. ISS-100

EBD/90/204

July 11, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Mongolia - Application for Membership

The attached application by the Mongolian People's Republic for membership in the Fund, which was received on July 10, 1990, will be placed on an agenda in due course, for consideration of the establishment of a committee on membership.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

MCLLENAGHAN, John B.
RM. 155-100

0411

PRESS RELEASE NO. 90/37

FOR IMMEDIATE RELEASE
July 12, 1990

The Government of the Mongolian People's Republic has filed an application for membership in the International Monetary Fund. In accordance with prescribed procedures, the application will be considered, first, by the IMF's Executive Board. After its consideration, the Executive Board would be in a position to submit a report, with recommendations, to the Board of Governors of the IMF in the form of a "Membership Resolution." These recommendations cover the amount of quota in the Fund, the form and payment of the subscription, and other customary terms and conditions of membership. Upon the adoption by the Board of Governors of a "Membership Resolution," the Mongolian People's Republic would need to take the legal steps required under its law to enable it to sign the IMF's Articles of Agreement and to fulfill the obligations of membership in the Fund.

Table 4. Mongolia - Data Required for Quota Calculations--International Reserves

(End of month holdings)

	January	February	March	April	May	June	July	August	September	October	November	December
<u>Total International Reserves</u>												
Gold holdings	(In millions of troy ounces)											
1980												
1985												
1986												
12-months ended March 1990												
Foreign exchange holdings 1/	(In millions of U.S. dollars)											
1980												
1985												
1986												
12-months ended March 1990												

N.B.: Only aggregated data on foreign reserves (i.e., gold plus other foreign currency holdings) will be shown in Fund reports.

1/ Consists of holdings available to (and under the control of) the monetary authorities. Includes, for example, bank deposits, holdings of Treasury bills and foreign government securities.