

**FOR
AGENDA**

EBS/09/36
Correction 1

March 30, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Mongolia—Request for Stand-By Arrangement**

In light of the Board decision on March 24, 2009 to modify the exceptional access criteria and to eliminate, starting from May 1, 2009, the structural performance criteria (SPC), the staff consulted with the authorities and they preferred—and the staff agree—to convert the three SPCs to structural benchmarks at this stage. A fuller move to review-based structural conditionality will be considered at the first program review. Accordingly, the following revisions are to be made to the paper on a request for a Stand-By Arrangement (EBS/09/36), scheduled for discussion by the Board on Wednesday, April 1, 2009.

Changes Not Affecting the Presentation of Staff's Analysis or Views

Page 13, para. 27, Criteria I, line 1: for “*The member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within the normal limits.*” read “*The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.*”

Criteria II, line 1: for “*A rigorous and systematic analysis indicates there is a high probability that debt will remain sustainable.*” read “*A rigorous and systematic analysis indicates that there is a high probability that public debt will remain sustainable in the medium term.*”

Criteria III, line 1: for “*The member has good prospects of regaining access to private markets within the time that Fund resources would be outstanding.*” read “*The member has good prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.*”

Page 22, Table 3, line 31: for “Total loans/deposits” read “Total loans/deposits 2/”
footnote 2: for “2/ Includes nonperforming loans.” read “2/ Includes claims on nonbank financial corporations, other financial corporations, and nonperforming loans.”

Page 30 (Text of Arrangement), para. 3, line 8:

for “(b)(i) after June 30, 2009, if Mongolia has not carried out its intention with respect to revising relevant laws to require Erdenet to pay taxes in togrog, as described in Table 2 and paragraph 5 of the MEP, or

(ii) after June 30, 2009, if Mongolia has not carried out its intentions with respect to announcing a plan for Anod Bank based on the diagnostics assessment of the external auditor, as described in Table 2 of the MEP, or

(iii) after December 31, 2009, if Mongolia has not carried out its intentions with respect to submitting to parliament a Fiscal Responsibility Law consistent with a stronger budgetary framework that will facilitate sound fiscal management, as described in Table 2 and paragraph 8 of the MEP; or

(c) if at any time”

read “(b) if at any time”

line 25: for “(d)” read “(c)”

line 28: for “(e)” read “(d)”

line 31: for “(f)” read “(e)”

Page 31 (Text of Arrangement), para. 4, line 6:

for “No. 9331-(89/167), or (c) pursuant to subparagraph 17 and 31 of Decision No. 8955-(88/126) on the Compensatory Financing Facility, or (d) in respect of a purchase under Decision No. 11627-(97/123) SRF on the Supplemental Reserve Facility, or (e) pursuant to paragraph 1(b) of Decision No. 5703-(78/39) or paragraph 10(a) of decision No. 4377-(74/114); or (ii)”

read “No. 9331-(89/167) or (ii)”

Page 40, Table 2, Title: for “Prior Actions (PA), Structural Performance Criteria (PC), and Structural Benchmarks (SB)” read “Prior Actions (PA) and Structural Benchmarks (SB)”

column 2, line 11: for “PC” read “SB”

line 14: for “PC” read “SB”

line 27: for “PC” read “SB”

Page 41 (Technical Memorandum of Understanding), para. 2, line 2:

for “indicative targets, structural performance criteria and structural benchmarks,” read “indicative targets, structural benchmarks,”

Questions may be referred to Ms. Karasulu (ext. 37113) and Mr. Feridhanusetyawan (ext. 35690) in APD.

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26. **Reviews.** Given the near-term uncertainty, and the prospects for a substantial decline in net international reserves in the first half of this year, reviews will be based upon quantitative performance criteria established for end-April and end-June. After that, the program would be assessed on the basis of five quarterly reviews. Until conditions stabilize, there will also be a consultation clause that would be triggered if there were a substantial fall in reserves over a rolling 30-day window.

27. **Exceptional access criteria.** The staff's evaluation of the four exceptional access criteria is as follows:

Criteria I. *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.* The balance of payments pressures are currently predominantly on the current account. While data on capital account flows is poor, the pace of recent reserve loss does, however, indicate that pressures on the capital account are mounting. In particular, there is a significant risk that the dwindling level of reserves could catalyze a sudden drop in confidence and precipitate a withdrawal of deposits from the banking system and a conversion of those assets into foreign currency. Preventing these pressures from emerging and to avoid adding to the existing current account pressures are key objectives of the program, justifying the need for exceptional access to replenish the weak international reserve position and bolster confidence in the currency.

Criteria II. *A rigorous and systematic analysis indicates that there is a high probability that public debt will remain sustainable in the medium term.* The bulk of the public debt is external and contracted on concessional terms. Debt sustainability analysis completed by staff indicate that, under a baseline scenario, the public debt should peak at below 40 percent of GDP this year—on a present value basis—and decline as a ratio of GDP over the medium term. This assumes that the policies under the program are fully implemented—including the substantial fiscal adjustment discussed earlier—and that large mining projects go forward. Substantial issuance of costly sovereign debt would, however, raise concerns over debt sustainability. The program limits that risk through a ceiling on the contracting of nonconcessional external debt.

Criteria III. *The member has good prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.* So far, Mongolia's access to private capital markets has been limited and the main source of inflows has been through FDI and official financing. However, the prospects for receiving significant private financing, related to the development of its considerable mineral resources, are high.

Criteria IV. *The policy program of the member country provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver the adjustment.* There are significant

risks to the program. However, steadfast implementation of the broad policy framework outlined above provides the basis for averting the pending economic and social crisis. Parliamentary approval of a revised budget has provided a clear signal of broader political ownership of the proposed fiscal adjustment.

28. **Capacity to repay.** The government is committed to implementing their policy program outlined in the attached Memorandum of Economic Policies. This, combined with the prospects for future development of Mongolia's natural resources (and the accompanying foreign currency earnings and government revenue), give reasonable assurances of capacity to repay the Fund. If purchases are made as scheduled, there will be a peak in repurchases to the Fund in 2013–14. Much will depend, therefore, upon the government's commitment to fiscal prudence over a more medium-term horizon. A steady reduction in the nonmineral fiscal deficit will be essential, even beyond the horizon of the current arrangement. The authorities have expressed their willingness to consider a possible request to transition to a concessional arrangement once the immediate crisis has been averted, which would help bolster fiscal responsibility and facilitate a steady path of structural reform over a longer horizon.

29. **Debt sustainability analysis.** Staff analysis suggests that Mongolia is at low risk of external debt distress. Although the debt ratios will rise significantly over the next two years as a result of front-loaded foreign financing, including from the Fund, the debt outlook is expected to recover and improve over the medium term. Debt sustainability will, nonetheless, depend critically on the future prospects for key commodity prices, notably copper.

30. **Safeguards.** Safeguards assessments of the central bank were completed in March 2002 and November 2003. The second assessment noted good progress in addressing some risks within the central bank's financial safeguards. The process for a new safeguards assessment has already begun and will be undertaken prior to the first review of the program.

31. **Exchange restrictions and multiple currency practices.** The current system of allocating foreign exchange gives rise to multiple currency practices and an exchange restriction. A parallel market has developed quickly at a growing premium from the intervention rate although over the past few weeks, the central bank has adjusted its official rate to narrow the spread with the informal market. There are two key dimensions to this problem:

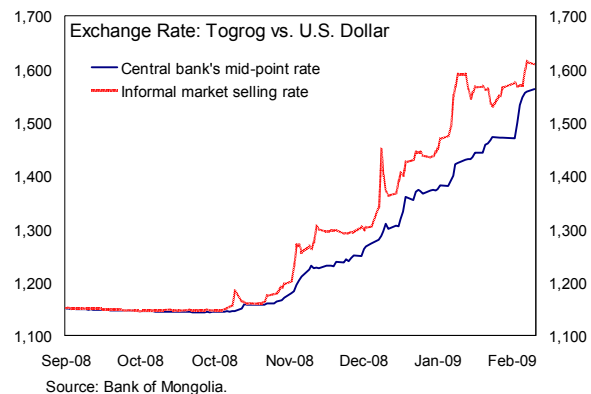


Table 2. Mongolia: Summary Operations of the General Government, 2006–10

	2006	2007	2008 Prel.	2009 Prog.	2010 Proj.
(In billions of togrogs)					
Total revenue and grants	1,360	1,880	2,156	1,936	2,269
Total expenditure and net lending	1,059	1,750	2,462	2,316	2,559
Overall balance (incl. grants)	301	131	-305	-380	-290
Nonmineral overall balance	-88	-527	-925	-621	-653
Financing	-336	-131	305	380	290
Foreign (net)	87	47	43	53	150
Domestic (net)	-423	-178	262	101	40
Donor support	0	0	0	227	100
(In percent of GDP)					
Total revenue and grants	36.6	40.9	35.2	30.8	31.6
Current revenue	36.4	40.4	34.8	30.4	31.2
Tax revenue and social security contributions	30.4	32.7	30.8	25.2	26.3
Income taxes	12.8	14.1	12.4	6.0	6.8
Enterprise income tax	6.0	4.8	4.1	3.5	4.0
Personal income tax	2.1	1.6	1.9	1.6	1.6
"Windfall" tax	4.8	7.7	6.3	0.9	1.2
Social security contributions	3.0	3.5	3.6	3.9	3.9
Sales tax and VAT	6.5	5.8	5.8	6.2	6.0
Excise taxes	2.7	2.9	2.9	3.2	3.6
Customs duties and export taxes	1.9	2.2	2.5	2.5	2.4
Other taxes	3.4	4.2	3.6	3.4	3.6
Nontax revenue	6.1	7.7	4.0	5.2	4.9
Capital revenue and grants	0.2	0.5	0.3	0.4	0.4
Total expenditure and net lending	28.5	38.0	40.2	36.8	35.6
Current expenditure	21.7	26.3	28.5	28.5	26.7
Wages and salaries	5.3	6.4	8.9	9.0	9.0
Purchase of goods and services	8.6	8.5	8.0	5.5	5.5
Subsidies to public enterprises	0.3	0.3	1.2	0.7	0.7
Transfers 1/	7.0	10.6	10.2	12.0	11.2
Interest payments	0.5	0.4	0.3	1.3	0.3
Contingency allocation	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	6.9	11.8	11.6	8.3	8.9
Capital expenditure	4.7	10.0	10.2	6.7	6.7
Domestically-financed	4.5	9.5	9.9	6.2	5.9
Foreign-financed	0.2	0.5	0.3	0.5	0.7
Net lending	2.1	1.7	1.4	1.6	2.3
On-lent foreign project loans	2.4	1.6	1.1	1.9	2.6
Domestic lending minus repayments	-0.3	0.2	0.3	-0.3	-0.3
Current balance (excl. privatization receipts)	14.8	14.1	6.3	1.9	4.5
Primary balance	8.6	3.2	-4.7	-4.7	-3.8
Overall balance (incl. grants)	8.1	2.8	-5.0	-6.0	-4.0
Nonmineral overall balance	-2.4	-11.5	-15.1	-9.9	-9.1
Discrepancy between above and below the line	-1.0	0.0	0.0	0.0	0.0
Financing	-9.1	-2.8	5.0	6.0	4.0
Foreign (net)	2.3	1.0	0.7	0.8	2.1
External borrowing (net)	2.3	1.0	0.7	0.8	2.1
Project loans	2.7	2.1	1.4	2.4	3.3
Program loans	0.3	0.0	0.0	0.0	0.0
Amortization	0.6	1.1	0.7	1.6	1.2
Domestic (net)	-11.4	-3.9	4.3	1.6	0.6
Banking system (net)	-11.8	-3.8	4.2	1.3	0.6
Nonbank	0.4	0.0	0.1	0.3	0.0
Donor support	0.0	0.0	0.0	3.6	1.4
Memorandum items:					
Mineral revenue	10.5	14.3	10.1	3.8	5.1
Of which: tax and royalty	9.5	11.3	9.8	2.5	4.0
Nonmineral revenue	26.0	26.1	24.7	26.5	26.2
Mineral revenue/total revenue and grants (in percent)	28.6	35.0	29.2	12.5	16.0
Nominal GDP (in billions of togrogs)	3,715	4,600	6,130	6,294	7,180
Copper price (US\$ per ton)	6,731	7,132	6,963	3,500	3,800

Sources: Ministry of Finance; and Fund staff projections.

1/ Includes reclassifications between goods and services and transfers starting in 2009.

Table 3. Mongolia: Monetary Aggregates, 2006–10

	2006	2007	2008	2009 Proj.	2010 Proj.
(In billions of togrog; end of period)					
Monetary survey					
Broad Money	1,537	2,391	2,319	2,900	3,637
Currency	185	283	329	390	489
Deposits	1,351	2,108	1,990	2,510	3,148
Net foreign assets 1/	1,132	1,348	677	942	1,248
Net international reserves	1,079	1,399	747	1,002	1,279
Bank of Mongolia	801	1,137	808	1,045	1,301
Commercial banks	278	261	-60	-43	-22
Other foreign assets, net	53	-50	-70	-60	-31
Net domestic assets	405	1,043	1,642	1,958	2,389
Domestic credit	812	1,389	2,196	2,495	2,943
Net credit to government	-435	-703	-497	-416	-376
Claims on nonbanks	1,247	2,092	2,692	2,910	3,319
Other items, net	-408	-346	-554	-537	-554
Monetary authorities					
Reserve money	394	535	633	710	836
Net foreign assets 1/	798	1,134	805	1,042	1,298
Net international reserves	801	1,137	808	1,045	1,301
Other assets, net	-3	-4	-3	-3	-3
Net domestic assets	-404	-599	-172	-332	-462
Net credit to government	-335	-573	-185	-74	-74
Claims on deposit money banks	18	19	243	165	165
Minus: Central bank bills (net)	71	103	120	303	475
Other items, net	-17	59	-110	-120	-78
Memorandum items:					
(In percent; unless otherwise indicated)					
Annual broad money growth	31.3	55.6	-3.0	25.1	25.4
Annual growth of credit to nonbanks 2/	42.5	67.7	28.7	8.1	14.0
Annual reserve money growth	40.0	35.9	18.4	12.1	17.7
Velocity	2.4	1.9	2.6	2.2	2.0
Broad money/reserve money	3.9	4.5	3.7	4.1	4.3
Total loans/deposits 2/	92.3	99.3	135.3	116.0	105.4
Net international reserve (in millions of US\$) 3/	660	938	520	575	739
Net international reserve (in millions of US\$) 4/	687	972	637	670	834

Sources: Mongolian authorities; and Fund staff projections.

1/ Valued at the programmed exchange rate and gold price.

2/ Includes claims on nonbank financial corporations, other financial corporations, and nonperforming loans.

3/ Does not include commercial bank foreign currency deposits and foreign currency current accounts held at the Bank of Mongolia.

4/ Includes commercial bank foreign currency deposits and foreign currency current accounts held at the Bank of Mongolia.

Mongolia: Stand-By Arrangement

Attached hereto is a letter (the “Letter”), with an annexed memorandum of economic policies (the “MEP”) and a technical memorandum of understanding (the “TMU”), dated March 17, 2009 from the Minister of Finance and the Governor of the Bank of Mongolia requesting a Stand-By Arrangement and setting forth:

- (a) the objectives and policies that the authorities of Mongolia intend to pursue for the period of this Stand-By Arrangement;
- (b) the policies and measures that the authorities of Mongolia intend to pursue during the first year of this Stand-By Arrangement; and
- (c) understandings of Mongolia with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Mongolia will pursue for the remaining period of this Stand-By Arrangement.

To support these objectives and policies the International Monetary Fund (the “Fund”) grants this Stand-By Arrangement in accordance with the following provisions:

- 1 For the period from April 1, 2009 to October 1, 2010, Mongolia will have the right to make purchases from the Fund in an amount equivalent to SDR 153.3 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this Stand-By Arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 51.10 million until June 15, 2009, the equivalent of SDR 76.65 million until September 15, 2009, the equivalent of SDR 91.98 million until December 15, 2009, the equivalent of SDR 107.31 million until March 15, 2010, the equivalent of SDR 122.64 million until June 15, 2010, and the equivalent of SDR 137.97 million until September 15, 2010.

- (b) None of the limits in (a) above shall apply to a purchase under this Stand-By Arrangement that would not increase the Fund’s holdings of Mongolia’s currency subject to repurchase beyond 25 percent of quota.

3. Mongolia will not make purchases under this Stand-By Arrangement that would increase the Fund’s holdings of Mongolia’s currency subject to repurchase beyond 25 percent of quota:
 - (a) during any period in which the data at the end of the preceding period indicate that:
 - (i) the floor on the net international reserves, or
 - (ii) the ceiling on the net domestic assets (NDA), or
 - (iii) the ceiling on the net bank credit to general government (NBCGG),

- (iv) the ceiling on the contracting or guaranteeing of new nonconcessional external debt by the general government, the BOM, or other agencies acting on behalf of the general government with maturities of one year or more, or
- (v) the ceiling on the contracting or guaranteeing of new nonconcessional external debt by the general government, the BOM, or other agencies acting on behalf of the general government with maturities of less than one year, as set out in Table 1 of the MEP and further specified in the TMU is not observed; or
- (b) if at any time during the period of the Stand-By Arrangement:
 - (i) the ceiling on the accumulation of external payment arrears by the general government or the BOM, as described in Table 1 of the MEP and as further specified in paragraph 30 of the TMU, is not observed, or
 - (ii) the ceiling on the accumulation of domestic payment arrears by the general government, as described in Table 1 and paragraph 21 of the TMU, is not observed, or
- (c) after June 14, 2009, September 14, 2009, December 14, 2009, March 14, 2010, June 14, 2010, and September 14, 2010 until the reviews contemplated in the paragraph 2 of the TMU are completed; or
- (d) unless, for so long as Mongolia has outstanding sovereign external arrears to private creditors, or by virtue of its imposition of exchange controls there are outstanding non-sovereign external payment arrears, a financing assurances review is completed, or
- (e) if, at any time during the period of the Stand-By Arrangement, Mongolia
 - (i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or
 - (ii) introduces or modifies multiple currency practices, or
 - (iii) concludes bilateral payments agreements that are inconsistent with Article VIII, or
 - (iv) imposes or intensifies import restrictions for balance of payments reasons.

When Mongolia is prevented from purchasing under this Stand-By Arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and Mongolia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. Mongolia will not make purchases under this Stand-By Arrangement during any period in which Mongolia: (i) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation (a) in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or (b) in respect of a purchase in support of debt and debt service reduction operations pursuant to Decision No. 9331-(89/167) or (ii) is failing to meet a repayment obligation to the PRGF-ESF Trust established by Decision No. 8759-(87/176), or a repayment expectation to that Trust pursuant to the provisions of Attachment I to the PRGF-ESF Trust Instrument.
5. Mongolia's right to engage in transactions covered by this Stand-By Arrangement can be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Mongolia. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Mongolia and understandings have been reached regarding the circumstances in which such purchases can be resumed.
6. Purchases under this Stand-By Arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of Mongolia, the Fund agrees to provide SDRs at the time of the purchase.
7. Mongolia shall pay a charge for this Stand-By Arrangement in accordance with the decisions of the Fund.
8. (a) Mongolia shall repurchase the amount of its currency that results from a purchase under this Stand-By Arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Mongolia's balance of payments and reserve position improves.
(b) Any reductions in Mongolia's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of reduction.
9. During the period of the Stand-By Arrangement Mongolia shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Mongolia or of representatives of Mongolia to the Fund. Mongolia

shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Mongolia in achieving the objectives and policies set forth in the Letter and the MEP.

10. In accordance with the paragraph 1 of the TMU, Mongolia will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Mongolia has outstanding purchases in the upper credit tranches, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning Mongolia's balance of payment policies.

Table 1. Mongolia: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

	12/31/2008 Actual	4/30/2009	6/30/2009	9/30/2009	12/31/2009
Performance criteria 1/					
Net international reserves (NIR) of the Bank of Mongolia (BOM) (floor, eop stock, in million US\$) 2/	520	335	315	455	575
Net domestic asset (NDA) of the BOM (ceiling, eop stock, in billion togrog) 3/	-172	-32	14	-195	-332
Net-bank credit to general government (NBCGG) from the banking system (ceiling, cumulative from the beginning of the fiscal year, in billion togrog) 3/	206	105	156	72	81
New nonconcessional external debt maturing in one year or more, contracted or guaranteed by the government or the BOM (ceiling, eop stock, in million US\$).	0	200	200	200	200
New nonconcessional external debt maturing in less than one year, contracted or guaranteed by the government or the BOM (ceiling, eop stock, in million US\$).	0	0	0	0	0
Accumulation of new external payment arrears (ceiling, eop, in million US\$).	...	0	0	0	0
Accumulation of domestic payment arrears (ceiling, eop, in billion togrog).	0	0	0	0	0
Indicative targets					
General government fiscal deficit (ceiling, cumulative since the beginning of fiscal year, in billion togrog).	305	250	325	290	380
Memorandum items:					
Support from bilateral and multilateral donors excluding IMF (cumulative since the beginning of the year, in million US\$)	0	0	30	80	145
Program exchange rate (togrog/U.S. dollar)	1,268	1,560	1,560	1,560	1,560
U.S. dollar per SDR	1.521	1.509	1.509	1.509	1.509
Monetary gold price (U.S. dollar/ounce)	872	880	880	880	880

1/ Evaluated at the programmed exchange rate.

2/ The NIR does not include commercial bank foreign currency deposits and foreign currency current accounts held at the Bank of Mongolia. The floor on NIR will be adjusted upward (downward) by the amount of support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level. The floor will also be adjusted upward by the amount of nonconcessional borrowing disbursed during the program period.

3/ The ceiling on NDA and NBCGG, respectively, will be adjusted downward (upward) by the amount of support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level. The ceilings will also be adjusted downward by the amount of nonconcessional debt disbursed during the program period.

Table 2. Mongolia: Prior Actions (PA) and Structural Benchmarks (SB)

Actions	Type	Date
The passage by the parliament of the 2009 budget amendment consistent with program targets	PA	
Appointment of a reputable external auditor to make diagnostic assessment on the portfolio and off-balance sheet transactions of Anod Bank.	PA	
Revision and clarification of blanket deposit guarantee by including current accounts as well as savings accounts, time deposits and interbank deposits; and by excluding all deposits of related persons to the bank as defined in the banking law, and deposits of holders of subordinated debt.	PA	
Establishment of a foreign currency auction mechanism at the Bank of Mongolia.	SB	4/1/2009
Revising relevant laws to require Erdenet to pay taxes in togrog.	SB	6/30/2009
Establishment of screen-based system for inter-bank foreign exchange transactions.	SB	6/30/2009
Announcement of a resolution plan for Anod Bank a based on the diagnostic assessment of the external auditor.	SB	6/30/2009
A comprehensive review of transfer programs resulting in a revision of the relevant laws to streamline transfer programs and safeguard the social safety.	SB	6/30/2009
Submission to the parliament of a revised banking law and other pertinent laws and legislations that include: (i) strengthened prompt corrective action clauses including an increase in penalties for noncompliance; (ii) requiring consolidated supervision; (iii) an improved bank resolution framework that more clearly defines the roles of the conservator and liquidator; (iv) legal protection for bank and non-bank supervisors; (v) a more clear definition of "group of connected parties;" and (vi) reinforced prudential supervision requirements.	SB	6/30/2009
The submission to parliament of Fiscal Responsibility Law consistent with recommendations of Fund technical assistance.	SB	12/31/2009

MONGOLIA—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. During the period of the arrangement, the authorities of Mongolia will maintain the usual close policy dialogue with the Fund. In this regard, the authorities are committed to take any additional measures that may be needed to ensure that the program remains on track. They will consult with the IMF on the adoption of measures, and in advance of revisions to the policies contained in the MEP, in accordance with the IMF's policies on such consultation. Further, the Government of Mongolia and the Bank of Mongolia will provide the Fund with such information as it requests on policy implementation and achievement of the program objectives.

2. The program will be monitored through quantitative performance criteria, indicative targets, structural benchmarks, and quarterly reviews (Table 1). This memorandum sets out the definitions for quantitative performance criteria and indicative targets under which Mongolia's performance under the program supported under a Stand-by Arrangement (SBA) will be assessed. Monitoring procedures and reporting requirements are also specified. The first review will take place on or after June 15, 2009, and the second review on or after September 15, 2009.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

3. Performance criteria for end-April 2009, end-June 2009, end-September 2009, end-December 2009, end March 2010, and end June-2010 have been established with respect to:

- floors on the level of net international reserves of the Bank of Mongolia (BOM);
- ceilings on the level of net domestic assets of the BOM;
- ceilings on the level of net bank credit to general government;
- ceilings on the contracting and guaranteeing by the central government or the BOM of new medium- and long-term external debt; and
- ceilings on the contracting or guaranteeing by the central government or the BOM of new short-term external debt.

4. Performance criteria that are applicable on a continuous basis have been established with respect to

- ceilings on accumulation of new external payment arrears of the central government and the BOM; and

- ceiling on accumulation of domestic payment arrears of the central government.
5. Indicative targets for end-April 2009, end-June 2009, end-September 2009, end-December 2009, end-March 2010, end-June 2010 have been established with respect to:
- ceilings on the general government fiscal deficit;

II. INSTITUTIONAL DEFINITIONS

6. The general government includes all units of budgetary central government, social security funds, extrabudgetary funds, and local governments.
7. The domestic banking system is defined as the BOM, the existing and newly licensed commercial banks incorporated in Mongolia and their branches.

III. MONETARY AGGREGATES

8. **Valuation.** Foreign currency-denominated accounts will be valued in togrogs at the program exchange rate between the togrog and the U.S. dollar Tog 1,560 per U.S. dollar. Foreign currency accounts denominated in currencies other than the U.S. dollar, excluding SDRs, will first be valued in U.S. dollars at actual end-of-period exchange rates used by the BOM to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of SDR 1=US\$1.51. Monetary gold will be valued at US\$880 per ounce.

A. Reserve Money

9. Reserve money consists of currency issued by the BOM (excluding BOM holdings of currency) and commercial banks' deposits held with the BOM.

B. Net International Reserves of the BOM

10. A floor applies to the level of net international reserves (NIR) of the BOM. The floor on NIR will be adjusted upward (downward) by the amount of support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level. The floor on NIR will also be adjusted upward by the amount of nonconcessional borrowing disbursed during the program period.
11. NIR will be calculated as gross international reserves less international reserve liabilities. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the BOM shall be valued at program exchange rates and gold price as described on paragraph 8 above.