

EBS/09/95  
Correction 1

July 16, 2009

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: **Mongolia—First Review Under the Stand-By Arrangement**

The attached corrections to EBS/09/95 (6/17/09) have been provided by the staff:

**Factual Errors Not Affecting the Presentation of Staff's Analysis or Views**

**Page 11, Figure 1, caption on first right chart:**  
for "a tightening" read "a necessary tightening"

**Page 11, Figure 1 caption on middle right chart:**  
"but only a portion of the recent real appreciation has been reversed." removed

Questions may be referred to Mr. Barnett (ext. 34439) and Mr. Feridhanusetyawan (ext. 35690) in APD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

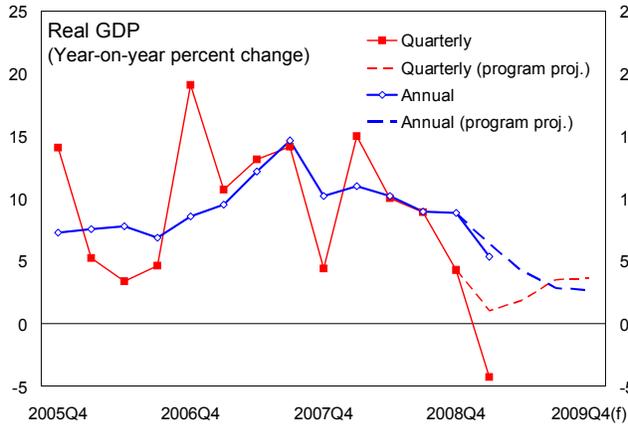
Other Distribution:  
Department Heads



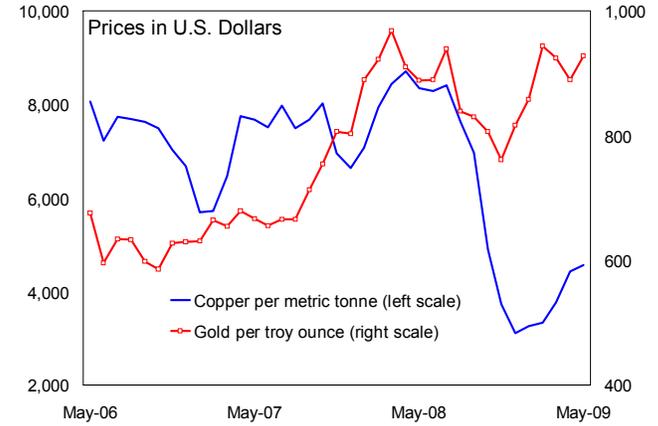
**Figure 1. Macroeconomic Trends**

**Main Message:** Following a period of overheating fueled by high commodity prices and procyclical policies, the economy has now slowed markedly, triggered by a sharp fall in copper prices.

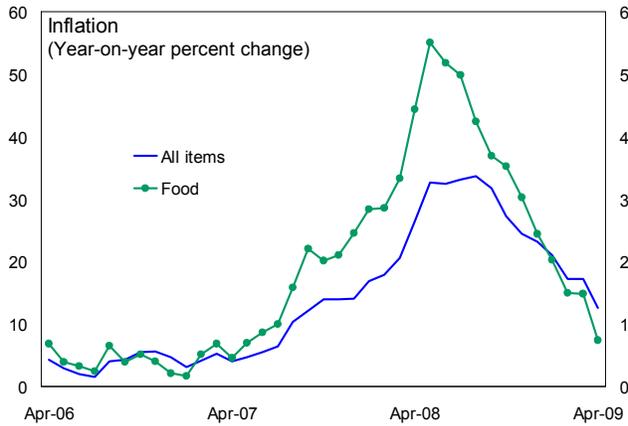
The economy is projected to slow this year...



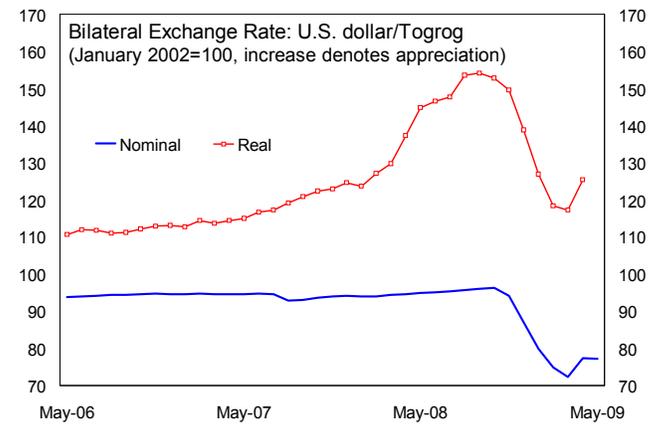
...due mainly to a worsening global environment, a necessary tightening of policies, and a sharp decline in copper prices.



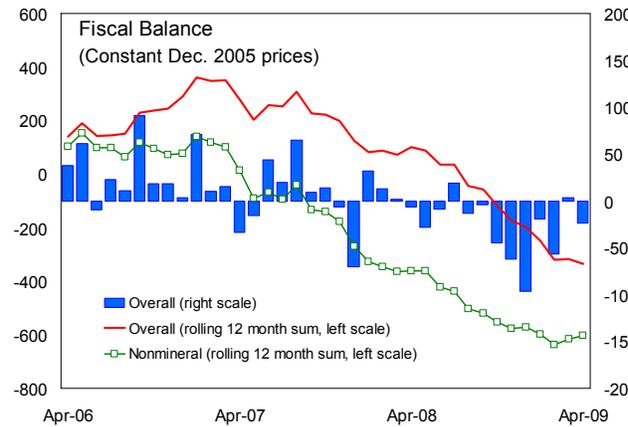
The slowing economy, policy tightening, and global price declines have helped drive inflation down.



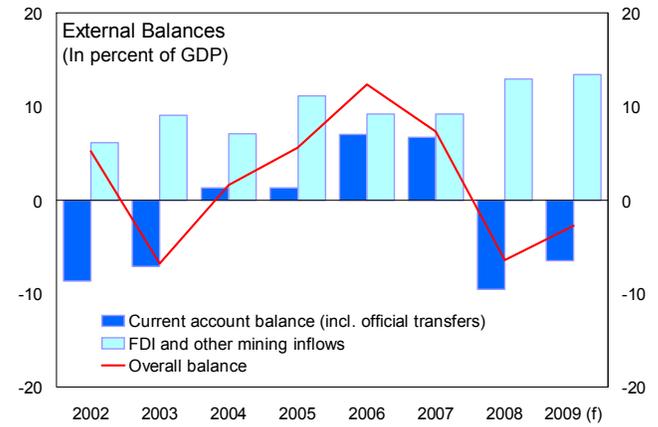
Downward pressure on the currency seems to have abated, but only a portion of the recent real appreciation has been reversed.



A big adjustment in the nonmineral balance is underway, unwinding the procyclical policies during the boom years.



Falling export earnings are causing the current account deficit to widen faster than the increase in financing flows.

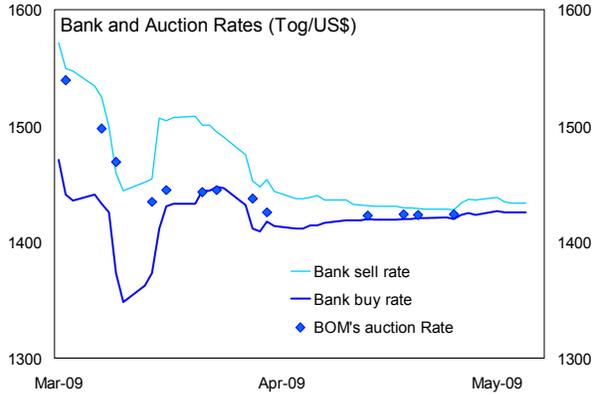


Sources: Mongolian authorities; and IMF staff estimates.

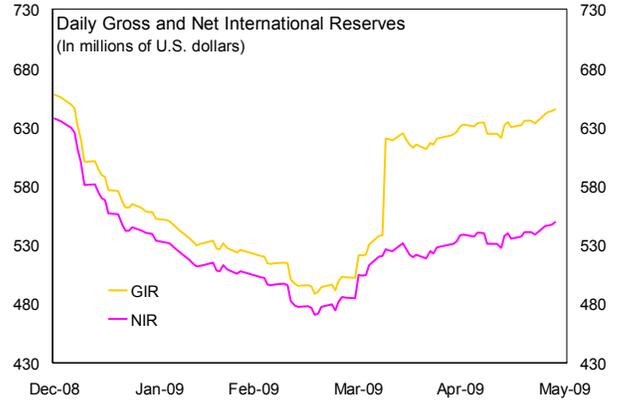
### Figure 2. Recent Developments

**Main Message:** Recent monetary policy and foreign exchange measures have worked well to stabilize market conditions, allowing the Bank of Mongolia to build international reserves. Private sector credit, however, is being squeezed.

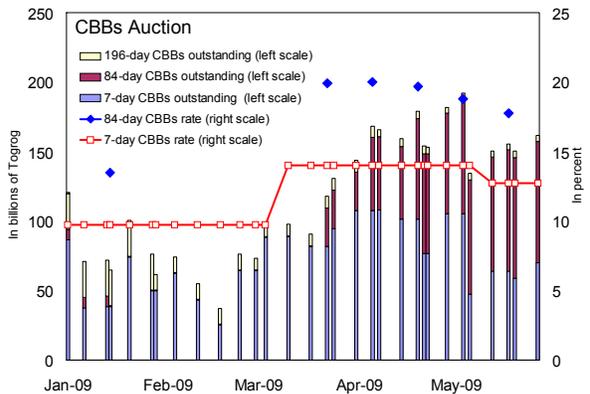
The foreign exchange auction system is working well, and interbank spreads have shrunk...



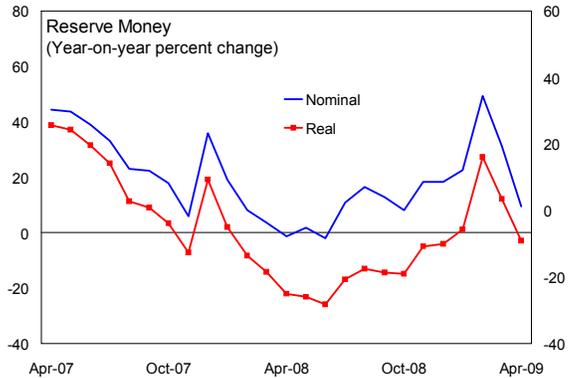
...while the Bank of Mongolia has been able to build foreign exchange reserves



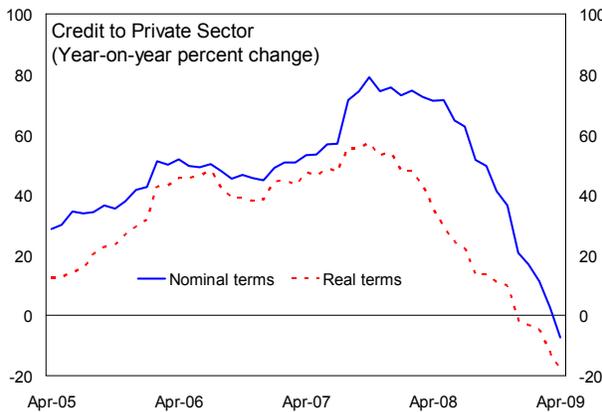
Liquidity remains tight following the hike in interest rates and continued issuance of CBB bills...



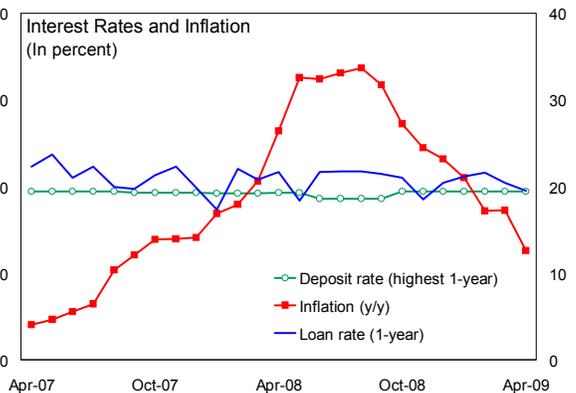
...leading to a sharp slowdown in reserve money growth.



...this is contributing to a substantial slowdown in private sector credit...



...with disinflation pushing up real interest rates as nominal deposit and lending rates moved only marginally.



Sources: Mongolian authorities; and IMF staff estimates.