

**IMMEDIATE  
ATTENTION**

EBS/11/156  
Supplement 1

October 26, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **Mongolia—Second Post-Program Monitoring—Informational Annex**

The attached informational annex is being issued as a supplement to the paper on the second post-program monitoring discussions with Mongolia (EBS/11/156, 10/26/11), which is being considered on a lapse of time basis. At the time of circulation of this paper to the Board, the authorities of Mongolia have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Barnett, OAP (ext. 34439) and Mr. Ojima, APD (ext. 35944).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, November 3, 2011; and to the Asian Development Bank, the European Investment Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

MONGOLIA

**Second Post-Program Monitoring—Informational Annex**

Prepared by the Asia and Pacific Department

October 25, 2011

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# ANNEX I. MONGOLIA—FUND RELATIONS

(As of September 30, 2011)

I. **Membership Status:** Joined: February 14, 1991; Article VIII

II. <b>General Resources Account:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
Quota	51.10	100.00
Fund Holdings of Currency	173.61	339.74
Reserve Position in Fund	0.14	0.27

III. <b>SDR Department:</b>	<b>SDR Million</b>	<b>Percent Allocation</b>
Net cumulative allocation	48.76	100.00
Holdings	45.88	94.11

IV. <b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
Stand-by Arrangements	122.64	240.00
ESAF/PRGF Arrangements	3.66	7.17

V. **Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	04/01/2009	10/01/2010	153.30	122.64
ECF 1/	09/28/2001	07/31/2005	28.49	12.21
ECF 1/	07/30/1997	07/29/2000	33.39	17.44

1/ Formerly PRGF.

VI. **Projected Obligations to Fund:** (SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.41	22.71	61.03	40.24	1.92
Charges/interest	0.42	1.55	1.06	0.33	0.03
Total	0.83	24.25	62.07	40.57	1.94

VII. **Safeguards Assessments:**

An update safeguards assessment of the Bank of Mongolia (BOM), conducted with respect to the Stand-by Arrangement approved in April 2009 was finalized on June 17, 2009. Previous safeguards assessments were completed in March 2002 and November 2003. The 2009 update assessment found that the BOM has continued to

improve its safeguards framework since the 2003 assessment. The BOM's financial reporting and audit practices generally comply with international standards. The assessment made recommendations to (i) strengthen certain aspects of the BOM's oversight mechanism, (ii) remove external audit qualifications caused by lack of access to central bank's vaults, and (iii) improve the timeliness of audit completion and publication of the bank's financial statements. The authorities have since confirmed that the auditors were granted access to its vaults at end-2009 and end-2010, and the timing of audit completion has improved. Publication of the English version of the financial statements remains protracted however. The full set of 2010 audited financial statements including the signed audit opinion should be published without further delay.

#### **VIII. Exchange Arrangement:**

On May 27, 1993, Mongolia moved from a fixed exchange rate against the U.S. dollar to a floating exchange rate system. The de jure exchange rate arrangement is floating. BOM's official exchange rate is the midpoint of the same days' average buying and selling rates of transactions in the interbank market and transactions between banks and their clients. The official rate is announced each weekday except for national public holidays, and the BOM reserves the right to intervene in the foreign exchange market. Effective February 2, 2009, the classification of the de facto exchange rate arrangement had been changed from a conventional pegged arrangement to a stabilized arrangement, retroactively to April 30, 2008, due to the revision of the classification methodology. This change reflected only a methodological modification and did not imply a judgment that there had been a substantive alteration in the country's exchange arrangement or other policies. Due to rapid currency depreciation between October 2008 and February 2009, the exchange rate arrangement was reclassified to "other managed arrangement" from a stabilized arrangement as of November 1, 2008. On March 24, 2009, the BOM instituted a foreign exchange auction allowing the determination of the exchange rate mainly by market forces and therefore, effective March 24, 2009, the de facto exchange rate arrangement has been reclassified to floating. Since 2011, the authorities no longer disclose the quantity of foreign exchange bought or sold in the auction and just publish the cut off rate. Mongolia has no explicitly stated specific nominal anchor, but rather monitors various indicators in conducting monetary policy.

Mongolia accepted the obligations of Article VIII, Sections 2, 3, and 4 on February 1, 1996. Mongolia maintains two multiple currency practices (MCPs) subject to Fund jurisdiction. First, the modalities of the multi-price auction system give rise to an MCP since there is no mechanism in place that ensures that exchange rates of accepted bids at the multi-price auction do not deviate by more than 2 percent. The Executive Board approved the multi-price auction MCP until June 22,

2010 (Decision No. 14365 of June 23, 2009), and its further extension until March 15, 2012 or the next Article IV consultation, whichever is earlier (Decision No. 14669 of June 23, 2010 and Decision No. 14865 of March 16, 2011). In addition, Mongolia has an official exchange rate (reference rate) that is mandatorily used for government transactions (as opposed to the commercial market rate). Therefore, by way of official action, the authorities have created a market segmentation. While the recently approved Order no. 699 of the central bank of Mongolia sets forth that the reference rate is determined based on the weighted average of market rates used from 4 PM of the previous day to 4 PM of the current day, staff is of the view that this Order does not eliminate the market segmentation and the multiplicity of effective rates arising from it. Accordingly, in the absence of a mechanism to ensure that the commercial rates and the reference rate do not deviate by more than 2 percent, the way the reference rate is used in government transaction gives rise to an MCP subject to Fund approval. Since the criteria for approval of this MCP are not in place, it remains unapproved. Mongolia imposes exchange restrictions for security reasons in accordance with United Nations Security Council Resolution No. 92/757 concerning certain transactions with the Federal Republic of Yugoslavia (Serbia and Montenegro) that have been notified to the Fund under Decision 144 (11/4/94).

**IX. Article IV Consultation:**

The 2011 Article IV consultation (IMF Country Report No. 11/76) was concluded by the Executive Board on March 16, 2011. Mongolia is on a 12-month cycle.

**X. ROSC Assessments:**

- Data Dissemination, May 2001 ([www.imf.org](http://www.imf.org))
- Fiscal Transparency Module, November 2001 (Country Report No. 01/218)
- Fiscal update, May 2005 ([www.imf.org](http://www.imf.org))
- Data Dissemination, April 2008 ([www.imf.org](http://www.imf.org))
- Monetary and Fiscal Policy Transparency, September 2008 ([www.imf.org](http://www.imf.org))
- Banking Supervision, September 2008 ([www.imf.org](http://www.imf.org))

**XI. Recent Financial Arrangements:**

An 18-month Stand-by Arrangement in an amount of equivalent to SDR 153.3 million (300 percent of quota) was approved on April 1, 2009. Following the first review completed on June 23, 2009, the second on September 21, 2009, the third on December 22, 2009, the fourth on March 19, 2010, and the combined fifth and sixth on September 8, 2010, the program was successfully completed on October 1, 2010.

A three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF) in an amount equivalent to SDR 40.81 million (80 percent of quota), with a first

annual arrangement in an amount of SDR 18.55 million (36.3 percent of quota), was approved on June 25, 1993. The second annual arrangement in an amount of SDR 11.13 million (21.8 percent of quota) was approved on November 23, 1994. The ESAF arrangement lapsed on June 24, 1996.

A three-year arrangement under the ESAF/PRGF in an amount equivalent to SDR 33.4 million (65.4 percent of quota), with a first annual arrangement in an amount of SDR 11.13 million (21.8 percent of quota), was approved by the Executive Board on July 30, 1997. The first year arrangement lapsed on July 30, 1998. The second annual arrangement of SDR 14.8 million (29 percent of quota) was approved on June 16, 1999. The first review under that arrangement was completed in January 2000 and the arrangement lapsed on June 15, 2000. The ESAF/PRGF arrangement lapsed on July 29, 2000.

A three-year arrangement under the PRGF in an amount equivalent to SDR 28.49 million (55.8 percent of quota), with the first year of the arrangement in an amount of SDR 12.21 million (23.9 percent of quota), was approved by the Executive Board on September 28, 2001. The first and second review under the PRGF was completed on September 12, 2003, and the Executive Board approved the extension of the PRGF through July 31, 2005. The arrangement expired on that date without the completion of the third and subsequent reviews.

## **XII. FSAP Participation:**

Mongolia participates in the Financial Sector Assessment Program (FSAP). The first, second and third FSAP missions took place in May 2007, September 2007 and November 2010, respectively, and the latest report (IMF Country Report No. 11/107) was published in May 2011.

## **XIII. Technical Assistance:**

### **Missions:**

- Tax administration (FAD), August–September 2011
- Monetary and Financial Statistics (STA), July –August 2011
- Taxation (LEG), June 2011
- Monetary policy (MCM), April 2011
- IBL (FAD), January, March, June, 2011
- Strengthening LTO operations (FAD), February–April 2011
- Strengthening LTO operations (FAD), April, July and November 2010
- Monetary Policy (MCM), October 2010
- National Statistics (STA), August 2010
- Fiscal Decentralization (FAD), June–July 2010
- Tax Policy (FAD), June 2010

- Banking Supervision (MCM) May 2010
- Banking Supervision (MCM), January–February 2010
- Strengthening LTO operations (FAD), November 2009
- Budget Preparation and Budget Legal Reforms (FAD), January, June, July, and December 2009
- External Sector Statistics (STA), November 2009
- Banking Restructuring (MCM), October–November 2009
- Monetary and Financial Statistics (STA), September 2009
- Supervisory and Regulatory Capacity Building of the FRC (MCM), February, April, and September 2009
- Bank Restructuring (MCM), August 2009
- Foreign Exchange Market and Monetary Policy (MCM), May 2009
- Strengthening Forex Market Operations (MCM), March 2009
- Foreign Exchange Market (MCM), March 2009
- Fiscal Expenditure Review (FAD), January 2009
- Operational Framework of Monetary Policy (MCM), December 2008
- Supervisory and Regulatory Capacity Building of the FRC (MCM), September, November, and December 2008
- Banking Supervision and Accounting Framework (MCM), November 2008
- Budget and Legal Reforms (FAD), October 2008
- External Sector Statistics (STA), October 2008
- Real sector Statistics (STA), August 2008
- Monetary and Financial Statistics (STA), June 2008
- Budget Preparation (FAD), February–March 2008
- Budget Preparation (FAD), February 2008
- Bank Supervision (MCM), February 2008
- Enhancing Foreign Exchange Market (MCM), February 2008
- Monetary Operations (MCM), January 2008
- Real Sector Statistics (STA), November–December 2007
- Poverty and Social Impact Analysis (FAD), December 2007
- Measures to Combat Money Laundering and the Financing of Terrorism (LEG), December 2007
- ROSC Data Module (STA), October 2007
- Fiscal Affairs Department Scoping Mission (FAD), September 2007
- Real Sector Statistics (STA), June–July, 2007
- International Market Access (MCM), May 2007
- Bank Supervision and Reserves Management (MCM), April 2007
- Real Sector Statistics (STA), March–April 2007
- Government Finance Statistics (STA), March–April 2007
- Fiscal Regime for the Mining Sector and the Development Fund (FAD), January 2007

- Government Finance and Monetary and Financial Statistics (STA), September 2006
- Improving Banking Supervision and Reserve Management (MCM), September 2006
- Value-Added Tax, Income Tax and Excise Tax Legislation (LEG), August 2006
- Cooperation between Mongolia's NSO and STA, May 2006
- Management Structure of the Bank of Mongolia (MFD), April 2006
- Monetary and Financial Statistics (STA), October 2005
- Banking Supervision and Payment Systems (MFD), June 2005
- Options for Expenditure Savings and Efficiency Improvements (FAD), January 2005
- Banking Supervision and Prudential Framework (MFD), October 2004
- Reforms of Tax Policies (FAD), October 2004
- Government Finance Statistics (STA), August 2004
- Balance of Payments Statistics (STA), July–August 2004
- Banking Supervision and Prudential Framework, (MFD), May–June 2004
- AML/CFT Action Plan and Legislative Awareness, May 2004
- Banking Supervision and Accounting (MFD), October 2003
- Government Finance Statistics (STA), August 2003
- AML/CFT (MFD), June 2003
- Banking Supervision and Accounting (MAE), November 2002
- Revenue Administration (FAD), September 2002
- Banking Supervision and Accounting (MAE), May 2002
- Review of Treasury and Intergovernmental Fiscal Reforms (FAD), August 2001
- Banking Supervision and Accounting (MAE), May–June 2001
- Money and Banking Statistics (STA), May 2001
- Government Finance Statistics (STA), March 2001
- Fiscal Transparency and ROSC (FAD), March 2001
- Intergovernmental Fiscal Relations and Budget Reform (FAD), January 2001
- Visits by MAE Peripatetic Experts on Banking Supervision, Payments System, Monetary Policy, and Accounting and Audit, November 2000
- Consumer Price Statistics (STA), September–October 2000
- ROSC Data Module (STA), May 2000
- Restructuring Bonds and Other Securities (MAE), March 2000
- National Accounts Statistics (STA), February 2000

**Resident Advisors:**

- Budget Planning (FAD), June 2009–June 2011
- National Accounts Statistics (STA), August 2001–September 2003

- Treasury Reform (FAD), June 1999–November 2003
- Balance of Payments (STA), March 1999–May 2001

Technical assistance for the period May 1995–October 1999 is reported in Annex II of the staff report for the 1999 Article IV consultation.

**XIV. Resident Representative:**

The Fund's resident representative in Mongolia, Mr. Ramlogan, returned to headquarters in September 2011 and is not being replaced. The local office is being maintained and managed from the Regional Office for Asia and Pacific in Tokyo, Japan.

## ANNEX II. MONGOLIA—STATISTICAL ISSUES

As of September 30, 2011

I. Assessment of Data Adequacy for Surveillance	
<p><b>General:</b> Data provision to the Fund is broadly adequate for surveillance. The priority areas for improvement are national accounts and government finance statistics.</p>	
<p><b>National Accounts:</b> The national accounts statistics compiled by the National Statistics Office (NSO) are broadly in line with the guidelines of the 1993 SNA. They have improved the quality of national accounts data, but weaknesses remain, including in the estimation of capital formation, estimation of GDP price deflators, and coverage of the informal sector and small-scale activity (especially in the services sector). The compilation of constant price expenditure-based national accounts, in line with the pilot done in 2008, would serve as a useful check for the production side estimates. NSO plans to disseminate annual expenditure-based GDP series in value terms and to pilot quarterly estimates of GDP by expenditure in 2011.</p>	
<p><b>Price Statistics:</b> The consumer price index (CPI) was rebased in January 2008 with expenditure-derived weights from the 2005 Household Income and Expenditure Survey. NSO has published a national CPI for Ulaanbaatar and 21 aimags (provinces) since January 2008, and a housing price index since October 2008. Priority areas for improvement are data on wages and earnings. NSO plans to disseminate a producer price index and a retail price index in 2011.</p>	
<p><b>External Sector Statistics:</b> The Bank of Mongolia (BOM) follows the concepts and methods in the Balance of Payment Manual fifth edition and is expected to begin implementing the recommendations of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) in 2012. The BOM disseminates the data according to the IMF standard presentation table. The coverage of the balance of payments statistics has been broadened by extending the International Transaction Reporting System (ITRS) to nonbank financial institutions and by increasing the number of direct reporting private enterprises. Priorities for improvement are in the analysis of balance of payments and the quarterly survey of foreign investment enterprises. The BOM compiled an experimental International Investment Position (IIP) for 2007, and plans to publish IIP in 2011.</p>	
<p><b>Monetary and Financial Statistics:</b> BOM's monetary and financial statistics conform to the concepts and definitions of the MFSM methodology as the authorities implemented recommendations of the June 2008 and September 2009 missions. In particular, the monetary data were improved by the proper classification of repurchase agreements, accrued interest, and financial derivatives. The coverage of monetary statistics was expanded beginning in February 2010 to include data of Savings and Credit Cooperatives (SCCs) that collect deposits and since May 2010, data for other financial corporations (NBFIs) have been disseminated in the BOM monthly statistical bulletin. The September 2009 mission also provided recommendations to reconcile the BOM and the Ministry of Finance data on government financing, and finalized the standardized report forms for the data of the BOM and other depository corporations in International Financial Statistics beginning in November 2009.</p>	
<p><b>Government Finance Statistics:</b> The concepts and definitions used to compile fiscal statistics generally follow the guidelines of the GFSM 1986. The classifications used for sub-annual and annual fiscal statistics also follow broadly its classifications. No formal decision has yet been taken on adopting a migration path to the GFSM 2001 methodology, but Mongolia has over several years availed itself on training, technical assistance, and thus no substantial problems for achieving a GFSM 2001 presentation are anticipated</p>	
II. Data Standards and Quality	
Mongolia participates in the General Data Dissemination System (GDDS), and maintains its efforts to subscribe the Special Data Dissemination Standards (SDDS).	A data ROSC mission visited Mongolia in September 2007 to update the May 2000 assessment of the macroeconomic statistics, complemented by an assessment of data quality based on the IMF's Data Quality Assessment Framework. The report was published in April 2008.

**Mongolia—Table of Common Indicators Required for Surveillance**  
As of September 30, 2011

	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of Publication <sup>6</sup>	Memo Items: <sup>7</sup>	
						Data Quality-Methodological soundness <sup>7</sup>	Data Quality – Accuracy and Reliability <sup>8</sup>
Exchange rates	9/30/11	9/30/11	D	M	D		
International reserve assets and reserve liabilities of the Monetary Authorities <sup>1</sup>	9/30/11	9/30/11	D	M	M		
Reserve/base money	8/2011	9/20/11	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Broad money	8/2011	9/20/11	M	M	M		
Central bank balance sheet	8/2011	9/20/11	M	M	M		
Consolidated balance sheet of the banking system	8/2011	9/20/11	M	M	M		
Interest rates <sup>2</sup>	8/2011	9/20/11	M	M	M		
Consumer price index	8/2011	9/20/11	M	M	M	O, LO, O, O	LO, LO, LO, O, O
Revenue, expenditure, balance and composition of financing <sup>3</sup> – general government <sup>4</sup>	8/2011	9/20/11	M	M	M	LO, LNO, LO, O	LO, O, LO, LO, LNO
Revenue, expenditure, balance and composition of financing <sup>3</sup> – central government	8/2011	9/20/11	M	M	M		
Stocks of central government and central government-guaranteed debt <sup>5</sup>	2010	3/2011	A	A	A		
External current account balance	Q2 2011	8/2011	Q	Q	Q	O, O, O, LO	LO, O, LO, LO, LO
Exports and imports of goods	8/2011	9/20/11	M	M	M		
GDP/GNI	2010	1/2011	A	A	A	O, LNO, O, LO	O, LO, LO, LO, LNO
Gross external debt	2010	4/2011	A	A	A		

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

<sup>7</sup> Reflects the assessment provided in the data ROSC or the Substantive Update (published in April 2008, and based on the findings of the mission that took place during September 1–28) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

<sup>8</sup> Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

### ANNEX III. MONGOLIA—MAIN WEBSITES OF DATA

#### National Statistics Office ([www.nso.mn](http://www.nso.mn))

- National Accounts
- Consumer Price Inflation
- Agricultural and Industrial Production
- Petroleum Imports
- Electricity Production and Consumption
- Coal Production
- Retail Prices
- Employment
- Exports and Imports

#### Bank of Mongolia ([www.mongolbank.mn](http://www.mongolbank.mn))

- Monetary Survey
- Consolidated Balance Sheet of Commercial Banks
- Distribution of Bank Credit to the Nongovernment Sector
- Net Credit to Government
- Interest Rates
- Balance of Payments
- Services and Income Accounts
- Official Reserves of the Bank of Mongolia
- Selected Indicators of Commercial Bank Foreign Exchange Operations
- Nominal and Real Exchange Rates
- Securities Market Data
- Government Budget Accounts

#### Ministry of Finance ([www.mof.gov.mn](http://www.mof.gov.mn))

- Government Budgetary Operations

#### National Development and Innovation Committee ([www.ndic.gov.mn](http://www.ndic.gov.mn))

- Long- and medium-term development strategy
- Economic and social policies
- Investment policy coordination
- Development Bank of Mongolia

**Financial Regulatory Commission ([www.frc.mn](http://www.frc.mn))**

- FRC decisions
- Total assets of regulated entities (insurance companies, securities and broker firms, non-bank financial institutions, savings and credit unions)
- Consolidated income statements of regulated entities (insurance companies, securities and broker firms, non-bank financial institutions, savings and credit unions)