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March 6, 1991

To: Members of the Executive Board
From: The Secretary
Subject: Mongolia - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on the exchange arrangements of Mongolia.

Mr. Huh (ext. 8525) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

THE MONGOLIAN PEOPLE'S REPUBLIC

Exchange Arrangements

Prepared by the Asian and Exchange and Trade
Relations Departments

(In consultation with the Legal and
Treasurer's Departments)

Approved by K. Saito and Michael Edo

March 6, 1991

The Mongolian People's Republic became a member of the Fund on February 14, 1991. In the attached communication, dated February 14, 1991, the authorities of the Mongolian People's Republic have submitted the initial notification pursuant to Paragraph 7 of the Membership Resolution 1/ of the exchange arrangements that the Mongolian People's Republic intends to apply under Article IV of the Articles of Agreement.

In the notification, the authorities of the Mongolian People's Republic have stated that the currency of Mongolia is the tugrik and that there are three official exchange rates for the tugrik against convertible currencies, a commercial and a noncommercial exchange rate and an auction rate. The commercial exchange rate is used for most of Mongolia's international transactions. This includes transactions with members of the former CMEA, which are now denominated in convertible currencies. The commercial exchange rate against the U.S. dollar is set at the beginning of each month by the State Bank, which applies a varying adjustment factor to a fixed base rate. In July 1990, the base rate was set at Tug 5.63 = US\$1.00. The adjustment factor is equal to the percentage appreciation or depreciation of the U.S. dollar against a weighted basket of eight convertible currencies during the last five days of the previous month. 2/ Commercial exchange rates for other convertible currencies are set for the month using market cross rates with the U.S. dollar on the day when the commercial rate for the dollar was adjusted. On February 14, 1991 the commercial exchange rate for the U.S. dollar was Tug 5.48 = US\$1.00.

The noncommercial exchange rate is applied only to sales of foreign exchange by the State Bank to tourist agencies and Mongolian passport

1/ Board of Governors' Resolution No. 46-1 (approved on January 29, 1991).

2/ The currencies of Austria, Canada, France, Germany, Italy, Japan, Switzerland, and the United Kingdom.

holders purchasing foreign exchange for purposes of travel; no purchases by the State Bank take place at this exchange rate. The noncommercial exchange rate is fixed at Tug 40 = US\$1.00.

An official foreign exchange auction is held periodically. Private individuals are not allowed to participate in the auction, and eligibility to participate in the auction is limited to juridical persons (except budgetary and subsidized organizations) and the State Bank, which sells foreign exchange at the auction and acts as the auctioneer. The volume of transactions at the auctions has been modest. The average exchange rate during the most recent auction, held in December 1990, was Tug 43 = US\$1.00. There is an illegal parallel market in which a small volume of transactions take place.

In light of this notification, the Mongolian People's Republic has been classified by the staff with the group of countries whose currencies are pegged to the U.S. dollar.

Attachment

Washington, D.C.
February 14, 1991

Dear Mr. Camdessus,

In accordance with our obligations under Article IV of the Articles of Agreement and Paragraph 7 of the Membership Resolution of the Board of Governors of the International Monetary Fund, I would like to submit the initial notification of the exchange arrangements in Mongolia, as follows:

The currency of Mongolia is the tugrik (100 mongo - Tug 1). Two different rates are quoted for the tugrik vis-a-vis convertible currencies: a commercial exchange rate and a noncommercial exchange rate. The commercial exchange rate is used for most of Mongolia's international transactions. This includes transactions with members of the C.M.E.A., which are now denominated in convertible currencies. The noncommercial exchange rate is applied only to sales of foreign exchange by the State Bank to tourist agencies and Mongolian passport holders purchasing foreign exchange for purposes of travel. The State Bank does not buy foreign exchange at this rate. An official foreign exchange auction is held periodically. There is a small parallel market on which small sums are traded. There are no spreads between buying and selling rates and there are no forward exchange transactions.

The commercial exchange rate vis-a-vis the U.S. dollar is set monthly by the State Bank, which applies an adjustment factor to an unchanging base rate. In July 1990 the base rate was set at Tug. 5.63 = U.S.\$ 1, equal to the ratio of the value of a subset of semi-processed and manufactured exports at domestic wholesale prices to their value at foreign contract prices in 1988. The adjustment factor is equal to the percentage appreciation of the U.S. dollar against a basket of eight convertible currencies during the last five days of the previous month. The basket is made up of the currencies of Austria, Canada, France, Germany, Italy, Japan, Switzerland, and the United Kingdom. An adjustment of the exchange rate can also be triggered before the beginning of a new month if the adjustment factor changes by more than 2 percent. Commercial exchange rates for other convertible currencies are calculated using market cross rates with the U.S. dollar on the day when the commercial rate for the dollar was adjusted. On February 14, 1991 the commercial exchange rate for the U.S. dollar was Tug. 5.48 = 1 U.S. dollar.

The noncommercial exchange rate is fixed at the level of Tug. 40 = 1 U.S. dollar.

Participation in the foreign exchange auction is limited to juristic persons (except budgetary and subsidized organizations) and the State Bank, which sells foreign exchange on the auction and is the auctioneer. The

volume of transactions at the auctions has been modest. During the most recent auction, in December 1990, the average exchange rate was Tug. 43 per U.S. dollar.

Mongolia maintains one bilateral clearing arrangement, with the Democratic People's Republic of Korea. The amounts involved are very small.

Very truly yours,

A. Bazarkhuu
Minister of Finance of the
Mongolian People's Republic

Mr. M. Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431