

1999

ANNUAL REPORT

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THE BANK OF MONGOLIA



Governor of the Bank of Mongolia

STATEMENT FROM THE GOVERNOR

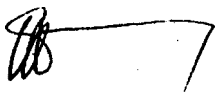
Ladies and Gentlemen,

I am pleased to present to you the 1999 annual report of the Bank of Mongolia (Central Bank) outlining the our activities to implement State Monetary Policy Guidelines as well as providing the Bank's financial statements and monetary statistics data.

As a result of monetary policy aimed at ensuring Togrog stability, the growth rate of the consumer price index was relatively stable, which was the main factor to facilitate real growth of the economy. We must emphasize that due to price decline of main export commodities on world market and price increase of fuel and other import goods, the external trade position continued to be unfavorable.

In terms of monetary developments, the Central Bank interest rate fell 50 percent, the foreign exchange rate stabilized and net foreign reserves increased 45 percent from the level of previous year. The new amendments were made to improve the legal environment of banking system, strengthen the bank supervision, and enforcement measures were taken in insolvent banks according to legislation. The prudential ratios of the banking system as a whole have been met. However, we still need to build a sound banking system and increase public confidence in the banks in order to reach the goal of deepening financial intermediation.

With best wishes,



Jigjid UNENBAT

Governor of the Bank of Mongolia

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1.1. BRIEF REVIEW OF THE WORLD ECONOMY

In 1999, the world economy began to recover from the recent global economic and financial crisis, and it was a successful year for most of the economies. Growth projections for total output indicate an increase of 3.3 percent, world trade volume 4.7 percent, oil prices 38.7 percent, while export of goods and services decreased by 7.2 percent. The hardest-hit crisis economies in Asia, Indonesia, Korea, Malaysia, Philippines, Thailand, have been recovering at a surprisingly fast pace and are stabilizing, and the economic downturns in Brazil and Russia have been shallower than expected earlier.

Commodity prices have continued to decline and decreased by 15 percent in comparison to 1990. For example, fuel price declined by 21.1 percent, and non-fuel commodities by 10.4 percent. Furthermore, the prices of some metals such as aluminum, copper, have fallen to their lowest level since the mid-1980's. The Asian financial and economic crisis was the main factor contributing to price declines.

Advanced Economies

The Asian crisis had a relatively small impact on economies in North America and other advanced countries, as revealed in their macroeconomic data. The GDP growth rate in the US was about 4 percent during the last three years. During 1999, the consumer price index rose somewhat from the rate of about 1.5 percent in 1998, mainly due to the increase in oil and other com-

modity prices. Unemployment has fallen to about 4.5 percent, its lowest level in almost three decades. This impressive performance of the US economy was due to the agile management of monetary conditions by the Federal Reserve.

Real GDP in Japan rose by 1.2 percent by the end of 1999, raising hopes that the economy had finally emerged from recession. Japan's public debt is significantly larger than in that of most other major industrial countries. The Government deficit is projected to rise to almost 10 percent of GDP, which is 2.5 percent higher than in 1998. It is important to take measures to increase the income level and bring down the unemployment level. Moreover, the recapitalization of banking institutions, the improvement of the prudential and supervisory system, strengthening the institutional framework for corporate sector restructuring have been critical in restoring stability and confidence.

For the countries that are already members of the EMU, the key issues are likely to be reconciling the political priorities of independent states within a fully integrated European economy; refining further the coordination of monetary and budgetary policies so as to be able to respond to cyclical fluctuations and shocks; and increasing the flexibility of their economies, particularly the labor market.

For the countries of the region outside EMU, a key issue will be how they will be integrated with EMU. For those Western European countries, such as the United Kingdom and several Scandinavian countries, those have

Figure 1. Growth of World Real GDP

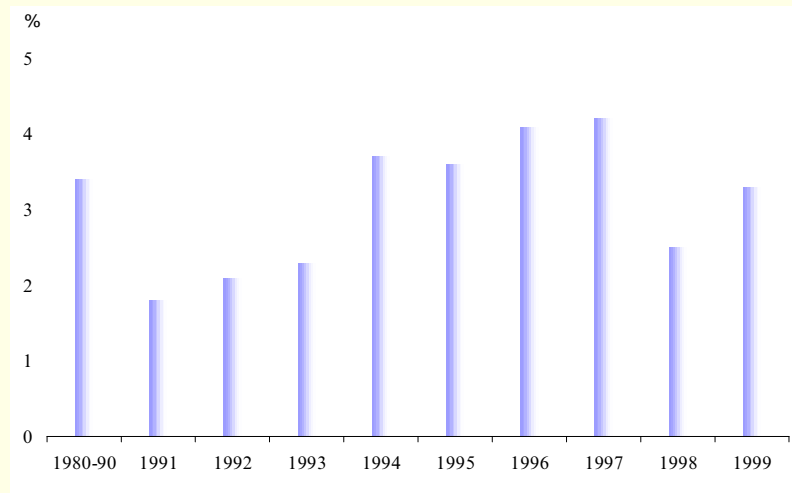


Figure 2. World Inflation Rate

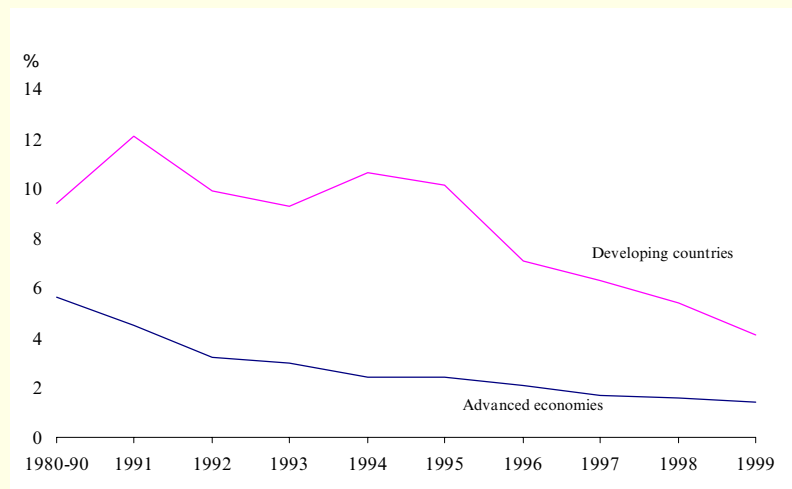
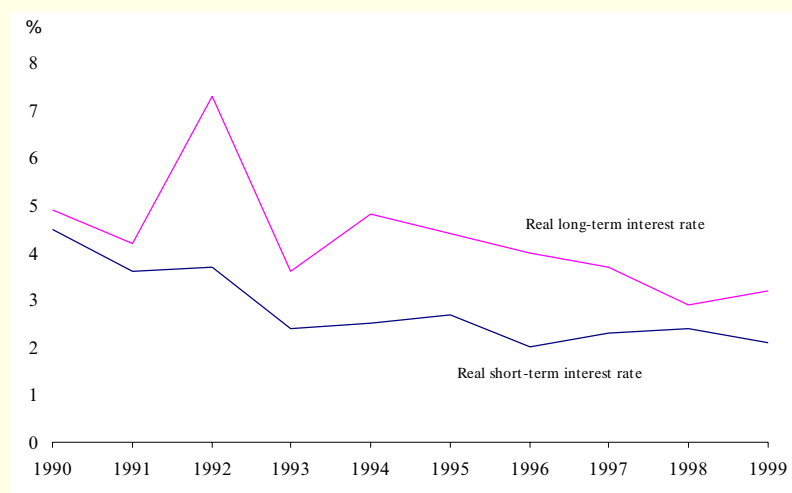


Figure 3. World Real Short-Term and Long-Term Interest rate



not joined the common currency area but have harmonized their budgetary and other policies the costs and benefits of EMU membership will continue to frame political debate. European countries can be classified into slower-growing and faster-growing countries. Germany, Italy, France are ranked as the slower-growing, while the United Kingdom, Denmark, Norway, Finland, Ireland, Netherlands, Portugal, and Spain are as the faster-growing countries. Asian countries must step up efforts to maintain price stability, to promote restructuring in both the financial and the corporate sector, and to further strengthen the safety nets needed to lessen

the impact of restructuring on the most vulnerable segments of society. Asian countries should spur growth by promoting improvements in productivity. This will require efficient resource allocation based much more on market forces and much less on government intervention than in the past. More open and freer financial, goods and labor markets, substantial investment in education, and acquiring maximum benefit from worldwide technological advances are essential for rapid productivity growth.

Measures to improve risk management, reduce vulner-

Table 1. Overview of the World Economic Outlook Projections (annual percent change)

	Projections			
	1998	1999	2000	2001
World Output	2.5	3.3	4.0	3.9
Advanced economies	2.4	3.1	3.4	3.0
Major industrial countries	2.5	2.8	3.1	2.8
Other advanced economies	2.1	4.4	4.3	4.0
Developing countries	3.3	3.7	5.1	5.3
Countries in transition	-0.7	2.4	2.6	3.0
World trade volume (goods, services)	4.0	4.7	7.2	6.8
Imports				
Advanced economies	5.3	7.2	6.9	6.6
Developing countries	0.2	0.2	8.2	8.7
Countries in transition	2.9	-5.5	6.2	6.9
Exports				
Advanced economies	3.6	4.3	7.3	6.3
Developing countries	4.4	3.1	7.7	8.1
Countries in transition	6.3	4.0	5.8	5.5
Commodity prices				
Oil				
In SDRs	-31.2	37.6	17.2	-15.4
In U.S. dollars	-32.1	38.7	18.0	-15.0
Nonfuel				
In SDRs	-13.5	-7.7	3.3	2.5
In U.S. dollars	-14.7	-6.9	4.0	3.1
Consumer prices				
Advanced economies	1.5	1.4	1.9	2.0
Developing countries	10.1	6.6	5.7	4.7
Countries in transition	21.8	43.7	19.5	14.2
Six-month London interbank offered rate (LIBOR, percent)				
On U.S. dollar deposits	5.6	5.5	6.7	6.9
On Japanese yen deposits	0.7	0.2	0.2	0.4
On euro deposits	3.7	3.0	4.0	4.9

Figure 4. World market price of crude oil

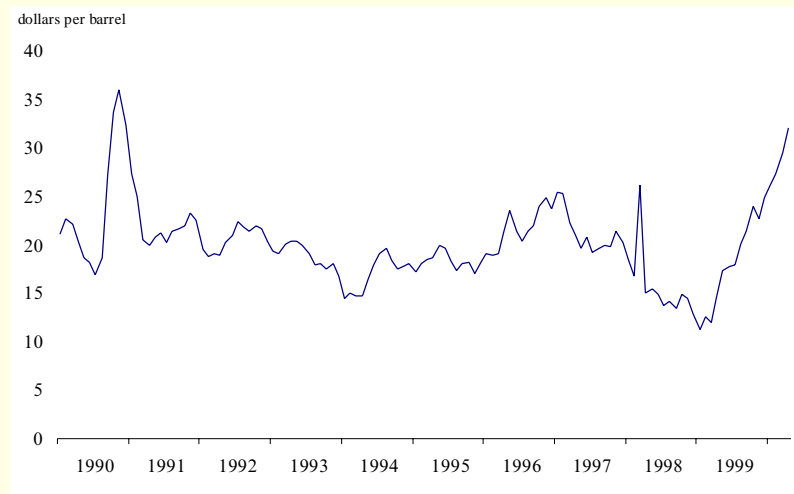


Figure 5. World market price of copper

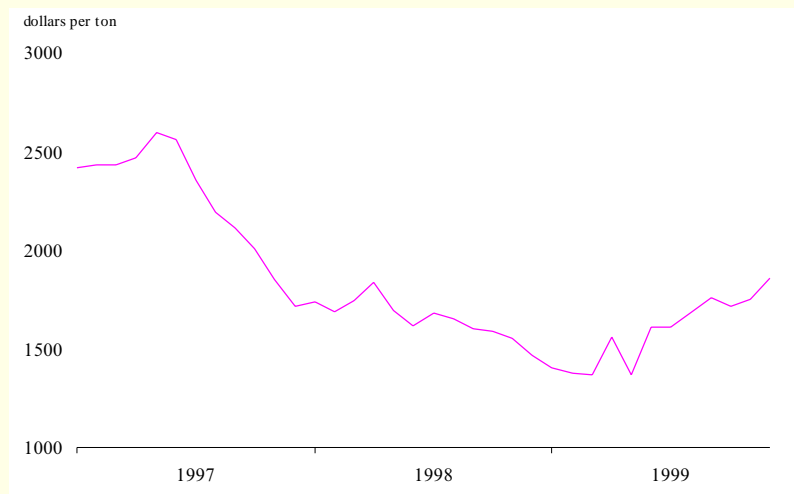
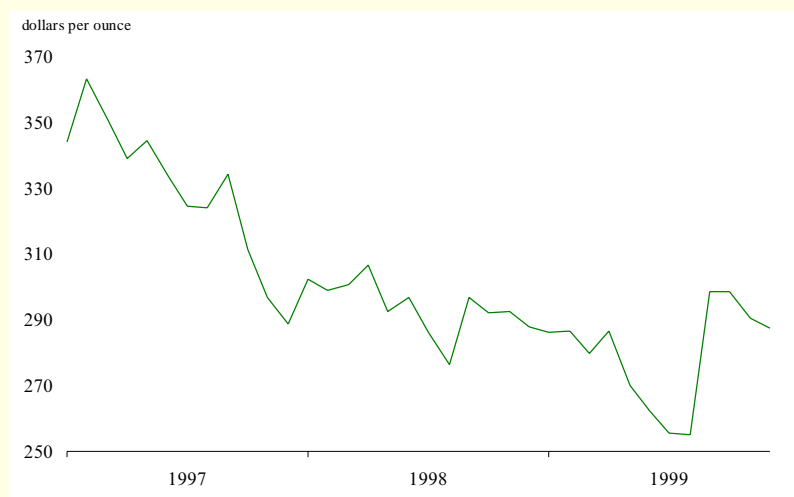


Figure 6. World market price of gold



ability, and to avoid excessive external debt and unsustainable exchange rate policy must play a central part in the region's longer-term strategy. Recent experience has demonstrated the risk of relying on rapid increases in inputs to spur growth. Moreover, it is needed to deepen the economic restructuring during the decade.

Developing Countries

The macroeconomic performance of the crisis-hit economies in Asia has continued to improve in 1999. Positive GDP growth is expected in almost all countries in the region, exports have generally increased supported by competitive exchange rates and improved growth in regional trading partners. Korea has been recovering from the crisis at a surprisingly fast pace, backed by supportive macroeconomic policies including interest rates below pre-crisis levels and an expansionary fiscal policy; low inflation; and a competitive exchange rate. In China's case, it has weathered the impact of the Asian

crisis relatively well due to the fiscal stimulus introduced in mid-1998 and due to its relatively strong external position.

Recent developments in Latin America have been very mixed, contributing to divergent revisions in economic projections. For the region as a whole, real GDP is now expected to be flat in 1999. Upward revisions to growth projections for Brazil and Mexico, however, have been partly offset by downward revisions for Argentina, Chile, Colombia, Ecuador, and Venezuela. The faster-than-expected recovery in Brazil has been the firm implementation of stabilization policies, which has led to a rapid rebuilding of economic confidence since March 1999. With the exchange rate having stabilized, the monetary authorities have been able to reduce interest rates steadily. Latin American countries need to facilitate macroeconomic stability, develop the education system and health care, diminish unemployment level, and implement social support programs.

Table 2. Primary Commodity Prices

Commodity	Unit	U.S. dollar		
		1997	Annual average 1998	1999
Fuel				
Crude oil	barrel	19.2	13.1	18.1
Non-fuel¹				
Metals				
Aluminum	ton	1599.0	1357.0	1361.0
Copper	ton	2277.0	1654.0	1573.0
Lead	ton	624.0	529.0	503.0
Nickel	ton	6927.0	4630.0	6011.0
Tin	ton	5647.0	5540.0	5404.0
Zinc	ton	1316.0	1025.0	1076.0
Precious metals				
Gold	ounce	331.1	294.2	278.8
Silver	ounce	4.9	5.5	5.3

¹ Only including metals.

Figure 7. Commodity Prices Index

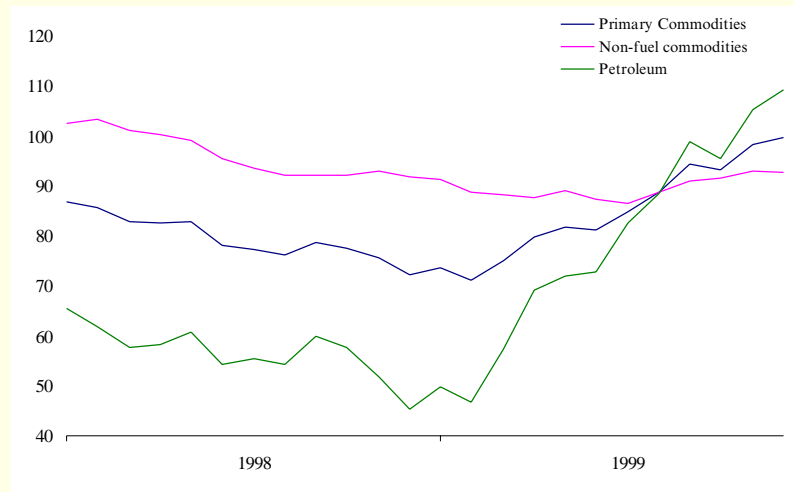


Figure 8. Consumer Prices of Countries in Transition

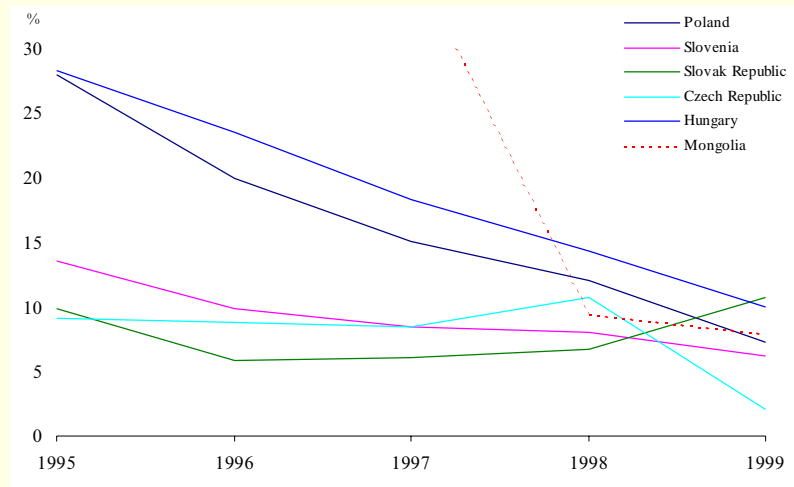
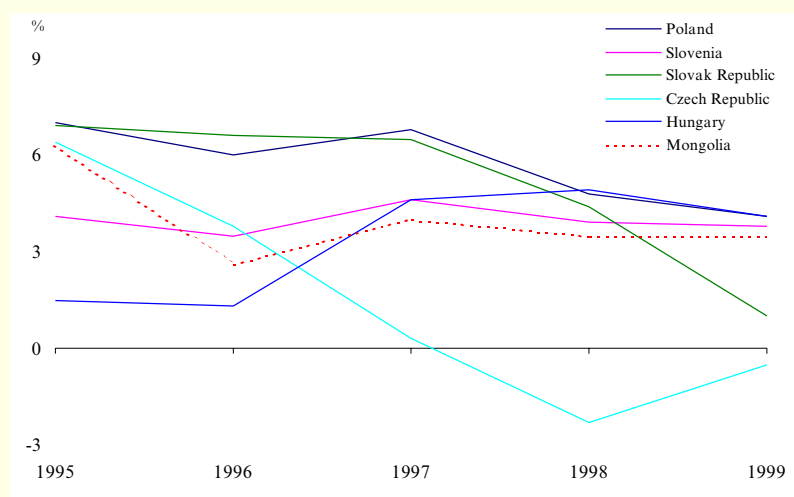


Figure 9. Real GDP of Countries in Transition



The economies of the Middle East and Africa have recently been influenced by three developments: movements in commodity prices, increased pressures for structural reforms, and various improvements in trade and political cooperation. The countries of this region must focus their adjustment efforts to promote macroeconomic stability, develop the infrastructure, liberalize external trade, strengthen their banking systems and develop capital markets, and increase social expenditures such as investment in education and health care.

The Asian crisis has widened the differences between the stronger and weaker transition economies. Exports have slowed throughout the region, most strongly in

countries with substantial trade links with Russia. In Russia, continued economic and political uncertainties have led to further capital flight and a sharp decline in foreign direct investment compared with the pre-crisis level. However, industrial output has picked up, reaching a level above that of a year earlier. The transition economies of Central and Eastern Europe will continue to focus on improving their macroeconomic performance and building market-oriented economies.

Positive changes in world economy and slowdown of Asian crisis in emerging market have made certain impact on Mongolian economy.

1.2. BRIEF REVIEW OF THE DOMESTIC ECONOMY

Real economy

In 1999, under the wide-ranging economic reform program, major actions were taken to tighten macroeconomic policies, restructure the banking system, reform the tax system, and accelerate the pace of privatization. Economic conditions began to stabilize led by continued strength in the agricultural, service, mining, and construction sectors.

The GDP grew an estimated 3.5 percent for the year, a consumer price index (inflation rate) of 10 percent level was achieved, and the exchange rate of the Togrog was relatively stable. Mongolia's trade deficit declined to 4 percent level of GDP, net foreign reserves increased to 11.1 weeks of import cover. The budget deficit fell to 8.4 percent level of GDP in 1999, helped by the renewal of uniform import duties and imposition of an

excise tax on beer. The decline in gold and copper prices on the world market in the beginning of 1999 had a negative impact on the fiscal position. However, prices of those commodities have recovered since the fourth quarter of 1999, and this has contributed positively to the balance of trade. At the beginning of the year, the price of copper was US\$ 1,403.3 per ton and increased to US\$ 1,855. The price of gold changed from US\$ 286.1 to US\$ 287.5 per ounce. The fluctuation of raw cashmere prices on the domestic market from Togrog 10 thousand up to Togrog 40 thousand per ton caused an increase in export volume. Decrease in trade deficit and increase in current transfers contributed to a positive current account.

One out of every six people in the labor force works in a public institution. A quarter of the total population lives in their families. In 1999, steps were taken to increase the level of disposable income. Wage rates of public employees were increased October 1, 10 percent, and will be increased another 20 percent January 1,



2000. Besides the increase in pension funds, an estimated expenditure line is reflected in the year 2000 state budget to eliminate the difference in retirees' pension size before and after 1995. As a result, the average level of pension funds for 250 thousand people will increase by 30 percent.

As a measure to lessen the tax burden and increase real income, income tax is now calculated on net wages after reduction of social and medical insurance payments rather than gross wages. The Law of New Amendments to the Law of Value Added Tax was approved in order to strengthen budget revenue.

To strengthen the banking system, measures were taken in 1999 as part of the Poverty Reduction and Growth Facility (PRGF)-supported program to resolve the financial situation of insolvent banks, increase loan recoveries, reduce operating costs, improve the banking sector's legal framework, and strengthen bank supervision.

The Mongolian government in cooperation with the World Bank held the seventh annual meeting of donor countries for the first time in Ulaanbaatar, Mongolia on June 21, 1999. More than 90 participants from 27 countries and 14 international organizations such as the United Nations Development Program (UNDP), World Bank (WB), International Monetary Fund (IMF), and Asian Development Bank (ADB) took part in this meeting. The positive measures implemented by the Mongolian government were recognized, and US\$ 320 million in grant funds was promised. The government has

paid close attention to infrastructure development and has used a concessional loan from China for building a paved road from Ulaanbaatar to Darkhan. A preliminary negotiation was reached with the government of the People's Republic of China and the Russian Federation on conducting a natural gas pipeline through Mongolian territory. In order to support national industry and protect the natural environment, export custom duties were imposed on wood and timber material.

Prices

At the end of 1999, the consumer price index increased to 10 percent, two-thirds of the target stated in the State Monetary Policy Guidelines. The main factors contributing to the rising inflationary pressures this year were the oil price increase, renewal of import duties, the price increase of food items, cultural goods and services, medicine and medical care, transport and communication services.

The consumer basket is comprised of 205 commodities. Prices for 50.7 percent of these commodities increased; prices for 24.9 percent decreased, and prices for 24.4 percent were unchanged. .

During the last year, among the upward adjustments in the level of prices, the price of transport and communication services (7.6 percent share of the basket) increased the most: 30.8 percent. Prices of garments, shoes, fabrics and textiles (10.3 percent share of the basket) increased by 4.8 percent. However, the price of food items, with the highest share (58.0 percent) of the basket, in-

Figure 10. GDP growth rate

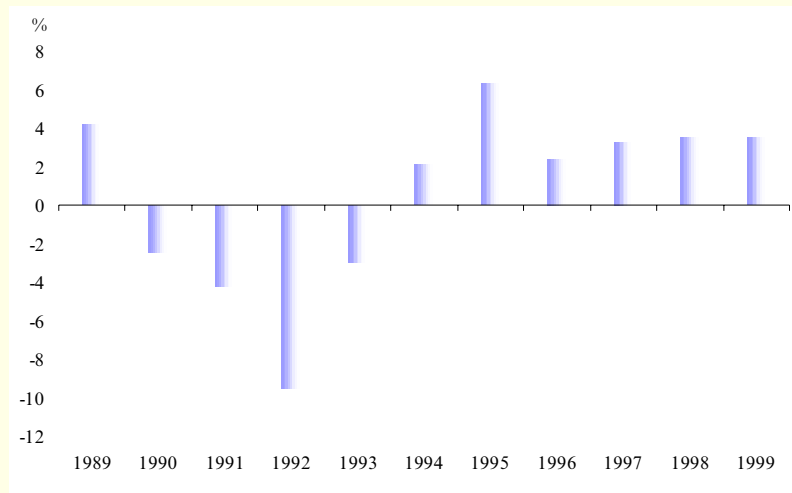


Figure 11. Composition of Gross Domestic Product (by sector)

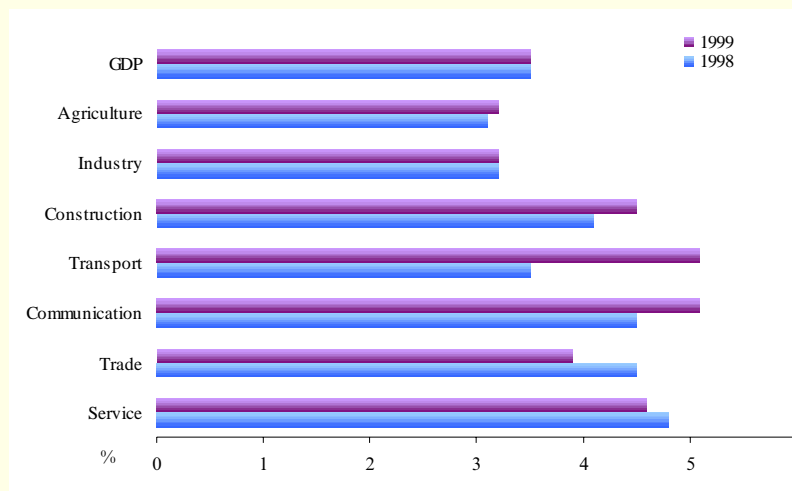
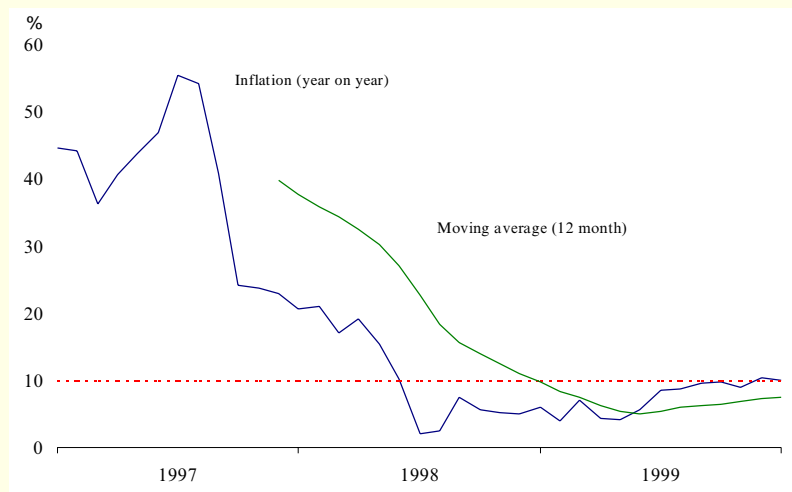


Figure 12. Inflation rate (consumer price index, annual growth)



creased by only 8.3 percent. During the first five months of the year, the consumer price index increased by 11.8 percent due to a substantial price increase in food items. This increase was observed in previous years due to seasonal factors and occurred again this year. From the second half of the year, prices of remaining items also increased and lead to higher inflation rate than in the previous year. For example, price increase of oil, renewal of uniform import duties were principal contributors to the price increase. Moreover, pension allowances were not paid on time. This caused an increase the supply of cash within a short period, which was the contributing factor to the increase in money supply. Inflation had a hidden character, when price increase was not observed during the time when cash income of individuals was delayed. Inflation increased in accordance with the increase of money supply. These were the main factors, which influenced the increase in the inflation rate during the last three months by 4.5 percent.

Manufacturing

In 1999, the manufacturing sector employed 58.2 thou-

sand people and produced 170 commodities with total sales of Togrog 474.6 billion (at current price). Total production increased by 1.1 percent reaching Togrog 237 billion (at 1995 prices) due to increases in production of mineral exploration by 3 percent, textiles by 4.4 percent, energy and heating by 4.2 percent.

In 1999, 361.9 thousand of ton cooper concentrate, 184.2 thousand of ton fluorite concentrate were produced as well as 71.9 thousand barrels of oil, and 10.2 ton of gold.

The production of 63 commodities increased in 1999 in comparison to the previous year, such as energy, oil, gold, cooper and fluorite concentrate, flour, spirit, casings and others. Production of 90 commodities declined including coal extraction, heating, molybdenum concentrate, cement, chalk, red brick, candles, sheepskin coat, beer, bread, beverages, confectionery, biscuits and others.

Agriculture

The 1999 livestock count showed total livestock reached

Table 3. Annual GDP growth (at constant prices)

	1992	1993	1994	1995	1996	1997	1998	1999
Gross Domestic Product	-9.5	-3.0	2.3	6.3	2.4	4.0	3.5	3.5
Industry	-11.5	-10.6	1.7	17.4	-2.0	4.4	3.2	3.2
Agriculture	-4.0	-7.1	2.7	9.5	4.7	4.8	3.1	3.2
Construction	-46.6	-20.0	10.5	10.6	5.0	-4.9	4.1	4.5
Transport	-18.4	-13.6	0.1	-2.1	7.3	4.2	3.5	5.1
Communication	-22.1	3.7	-7.8	1.2	11.5	5.6	4.5	5.1
Trade	-24.2	0.5	0.0	0.1	2.5	4.1	4.5	3.9
Service	1.2	-8.6	4.3	0.5	5.6	1.3	4.8	4.6

33.5 million heads, an increase of 1.9 percent over 1998. The total includes 15.2 million sheep, 10.9 million goats, 3.8 million cattle, 3.2 million horses, 0.4 million camels. The following is a view of livestock growth by types of husbandry: sheep by 471 thousand heads, horses by 98.9 thousand heads, cattle by 90.6 thousand heads. Out of total female livestock 80.9 percent or 11.3 million heads have generated new offspring, and 10.2 million heads of young livestock have grown up, which is larger by 300 thousand heads or 3 percent compared to 1998.

In 1999, nationwide 297.9 thousand hectares of land were cultivated, out of which 280.8 thousand hectares were under wheat, 8.7 thousand hectares under potato, 4.8 thousand hectares under vegetables, and 1.7 thousand hectares under fodder. Total cultivation was 8.8 percent below 1998 levels. Due to the decrease of total cultivated area and harvest by 0.2 quintals per hectare, the harvest of wheat declined by 23.6 thousand tons,

potatoes by 1.4 thousand tons, and vegetables by 6.7 thousand tons in comparison to 1998. The total harvest comprised 171.3 thousand tons of wheat, 63.8 thousand tons of potatoes, 39 thousand tons of vegetables. Production of hay increased by 1.7 percent to 678.1 thousand tons; however, the harvest of fruits and berries declined by 3.5 percent.

Construction

During 1999, construction companies completed construction and capital repair work valued at Togrog 61.9 billion and turned over for operation 112 real estate projects valued at Togrog 18 billion. 10.2 thousand people were employed in construction sector, which is smaller by 25.4 percent, or 3.5 thousand people in compare to previous year.

Mongolian construction companies completed construction and capital repair work valued at Togrog 40.6 bil-



lion, which is 14 percent, or Togrog 6.6 billion, less than in 1998. This was mainly due to a 62 percent decrease in construction work done by joint venture companies. A majority of the work (67.6 percent) was undertaken by private and privatized companies, 20.9 percent was completed by state owned enterprises, and 11.5 percent by joint venture companies. However, the construction work completed by foreign construction companies totaled to Togrog 21.3 billion, which is higher by 19.5 percent.

In 1999 construction projects completed and turned over included the following: a new 35 kilowatt electricity line in Mandalgobi-Gurvan Saikhan; 555 apartment units in Dornod, Dornogobi and Ulaanbaatar; a 270 meter concrete bridge in Khovsgol's Tarialan; gasoline stations in Arkhangai, Bayankhongor, and Central aimags; school, hotel, office, and trade center buildings.

Transportation and Communication

In 1999, 9.5 million tons goods were transported, and 87.6 million passengers were carried. Goods transported increased by 7.5 percent or 666.7 thousand tons; passengers carried increased by 7.5 percent or 6.1 million persons from the previous year. Out of total goods transported, rail freight accounted for 86 percent, and auto transport accounted for 14 percent. However, 95.1 percent of passengers were carried by auto, 4.7 percent by rail, 0.01 percent by water and air transport. Rail freight increased by 7.7 percent, rail passenger transport by 5.1 percent; auto freight by 6.7 percent, and auto passenger

transport by 7.8 percent. Airfreight declined by 22.4 percent, and air passenger transport declined by 21.1 percent.

Total transportation sector revenues were Togrog 79.5 billion, up 12.6 percent from 1998. Of this amount, rail transport accounted for 45.0 percent, followed by air transport 38.4 percent, and auto transport 16.6 percent.

In 1999, the communications sector generated Togrog 24 billion in revenue, of which Togrog 5.2 billion was from individuals. Total revenues were 60 percent higher, or Togrog 9 billion, than in 1998. This was mainly due to the extended operation of the Mongolian Telecommunication and Mobicom companies, and the establishment of Skytell Cellular Phone company with Korean investment. The communications sector employed 22.8 thousand people, an increase of 2.2 percent from the level of 1998.

Unemployment

A total of 221 thousand people were jobless, from which 158 thousand were unemployed without any reason. At the end of 1999, 39.8 thousand people were registered as unemployed at aimag and Ulaanbaatar city labor bureaus, from which 17.2 thousand were newly registered during the year. A breakdown of unemployed by level of education is as follows: 4.9 percent with university education, 11.6 percent specialized secondary education, 23.5 percent skilled workers, 24.2 percent high school education, 25.5 percent secondary school edu-

Figure 13. Consumer Price Index (by structure)

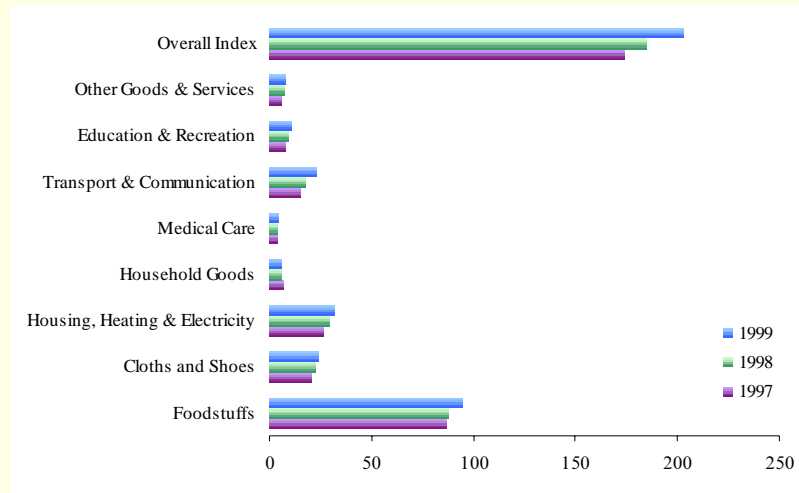


Figure 14. Gross industrial output growth (at 1995 prices)

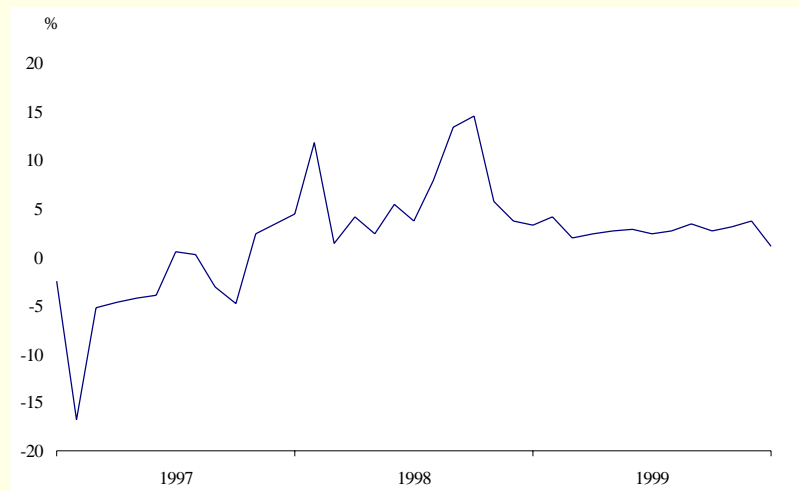
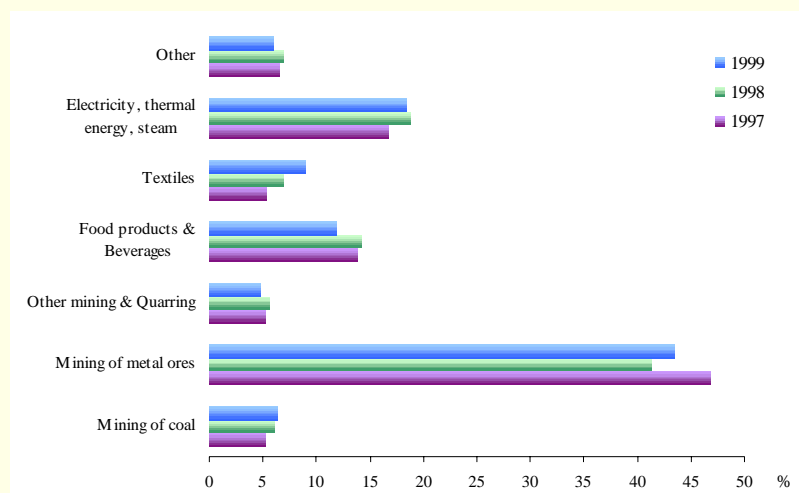


Figure 15. Gross industrial output (by structure)



cation, 7.5 percent primary school education, and 2.8 percent no formal education. 54.4 percent, or 21.6 thousand, of the total unemployed were women. On average, there were 316 unemployed people for each 10,000 people of employable age. In 1999, 16.8 thousand per-

sons found jobs, of which 84 percent were in the private sector and the remaining 16 percent in the public sector. Thus, the total number of unemployed decreased by 20.2 percent, or 10.1 thousand persons.

1.3. GOVERNMENT BUDGET

In 1999, according to the specified State Budget approved by Parliament, it was planned to conduct suitable budget policy by providing stable resources for state budget revenue, reducing unnecessary costs, and limiting financing; thus bringing the share of budget deficit in GDP to 8.3 percent, current budget revenue to Togrog 10.2 billion or no more than 1 percent of GDP.

Based on preliminary data, the budget revenue plan was fulfilled by 91.7 percent and budget expenditures by 93.9 percent. The budget deficit as a percentage of GDP decreased by 3.8 points from the previous year level and stood at 8.4 percent, and budget current balance was 0.5 percent of GDP.

Budget Revenue

In 1999, the Government implemented revenue-raising measures. For example, in May 1999, a uniform im-

port duty of 5 percent was renewed, and as a result, import tax income to budget increased by 7.8 times over 1998 to Togrog 5.8 billion. Imposition of an excise tax on beer was designed to raise Togrog 3.8 billion revenue to budget. However, the actual revenue from excise tax was only Togrog 218.8 million, which is 7 percent of plan. This was caused by a reduction in imported beer as well as reduced domestic production. Moreover, some other amendments were made in the law such as 20 percent of the value added tax revenue from local government customers will be transferred to local government accounts and tax coverage will be increased by including small enterprises.

According to preliminary data, the composition of budget revenue was as follows: tax revenue 70.3 percent, non-tax revenue, 22.5 percent, capital revenue, 4.6 percent, and grants 2.6 percent. Although the world prices for Mongolia's main export commodities have recovered, the budget revenue from enterprises exporting these items did not increase. For example, the Erdenet Cop-



per Mine fulfilled its plan only by 27.9 percent or Togrog 1.1 billion, and Gobi Cashmere Factory by 66.5 percent, or Togrog 4.1 billion. Total revenue from privatization to budget in 1998 was Togrog 14.5 billion. Privatization of 73 property objects generated Togrog 11.7 billion in 1999.

Budget Expenditures

In 1999 Government policy action were undertaken for the purpose of improving the structure of budget expenditures, limiting the useless cost and financing, financing the most needed social expenditures. Government expenditures in education were amounted Togrog 61.1 billion or 6 percent of GDP, in medical care Togrog 32.7 billion or 3.2 percent of GDP. The composition of government expenditures was as follows: expenditures for wages, salaries, goods and services 44.3 percent, capital expenditures and net credit, 31.7 percent, sub-

sidies and current transfers, 18.9 percent, and interest payments, 5.1 percent.

Budget financing for social security increased substantially due to the general wage increase of 10 percent to all civil servants starting October 1, 1999, pursuant to the growth rate of inflation, elimination of the pension gap and the increase in pension funds. The budget investment decreased by 21.6 percent reaching Togrog 18.1 billion in comparison to the previous year.

99.7 percent of the budget deficit was covered by foreign and 0.3 percent by domestic financing. In 1999, Togrog 95.0 billion of foreign loans were spent to cover the budget deficit, of which 79.5 percent were project loans and the remaining 20.8 percent cash loans. The Government repaid Togrog 10.3 billion of loans. Net foreign lending increased to Togrog 84.7 billion, which is Togrog 16.1 billion lower than in 1998.

Figure 16. Budget deficit (percentage of GDP)

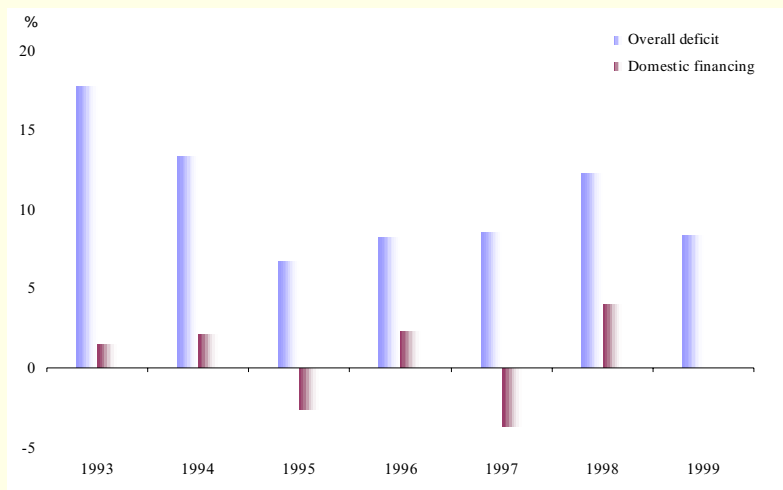


Figure 17. Budget revenue (by structure)

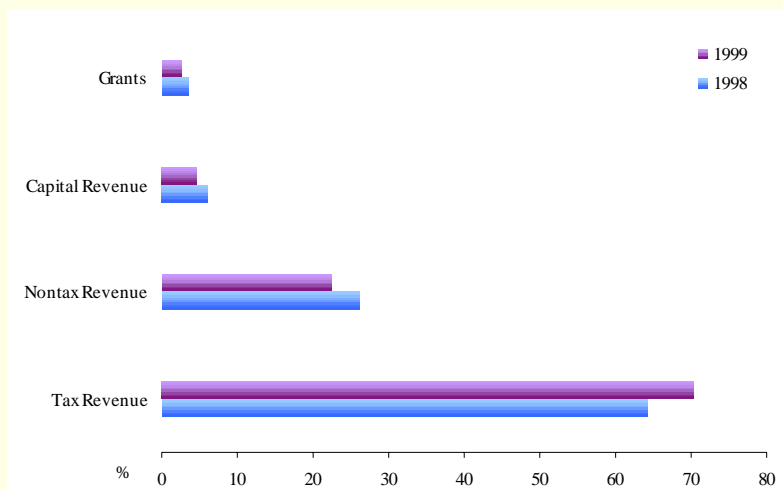


Figure 18. Budget expenditure (by structure)

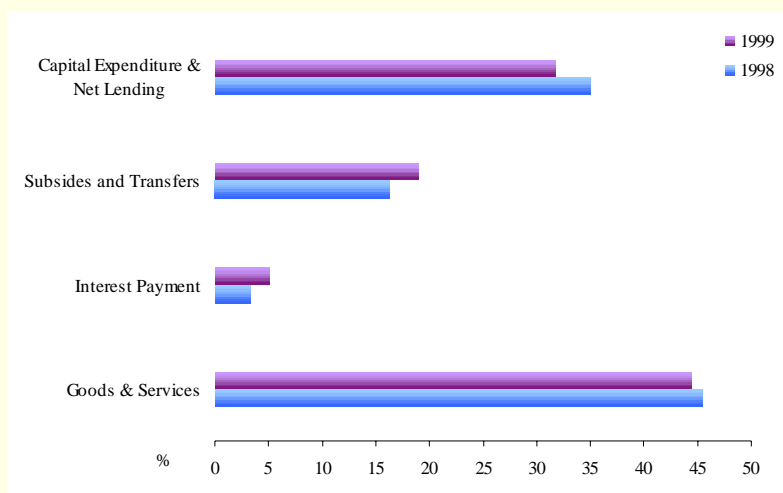


Table 4. General Government Budget

	1998 actual	1999 projection	In billions of Togrog	
			1999 actual ¹	Changes of actual
Total revenue	240.0	282.7	259.4	19.4
Current revenue	216.8	250.4	240.8	24.0
Tax revenue	154.0	195.2	182.5	28.5
Income tax	41.5	43.6	41.9	0.4
Social security contributions	26.0	27.4	29.7	3.7
Value added tax	46.1	69.8	58.9	12.8
Excize tax	24.5	30.1	26.7	2.2
Customs duties	1.5	8.9	9.0	7.5
Other tax	14.4	15.4	16.3	1.9
Nontax revenue	62.8	55.2	58.3	-4.5
Capital revenue	14.6	24.3	11.9	-2.7
Grants	8.6	8.0	6.7	-1.9
Total expenditure	342.1	366.4	344.4	2.3
Current expenditure	222.4	240.1	235.3	12.9
Goods and services	155.5	157.5	152.7	-2.8
Wages and salaries	56.0	59.1	61.2	5.2
Other goods services	99.5	98.4	91.5	-8.0
Interest payment	11.1	18.9	17.4	6.3
Subsidies and transfers	55.8	63.7	65.2	9.4
Subsidies	0.4	0.5	0.8	0.4
Transfers	55.4	63.2	64.4	9.0
Capital expenditure & Net lending	119.7	126.3	109.1	-10.6
Capital expenditure	33.9	43.9	34.8	0.9
Lending (net)	85.8	82.4	74.3	-11.5
Current balance	-5.6	10.3	5.5	11.1
Overall balance	-102.1	-83.7	-85.0	17.1
Financing	102.1	83.7	85.0	-17.1
Foreign, net	68.6	92.3	84.7	16.1
Project loans	73.8	90.3	75.2	1.4
Cash loans	7.5	22.0	19.8	12.3
Amortizations	-12.7	-20.0	-10.3	2.4
Domestic, net	33.5	-8.6	0.3	-33.2

¹ Preliminary

1.4. BALANCE OF PAYMENTS

The world market prices of copper and gold, Mongolia's major exports, continued to fall in connection with the deepening of the financial crisis in the region in the first half of 1999. As foreign trade terms worsened, the real effective exchange rate of Togrog appreciated. Political instability in the country was not surmounted. All of the above factors had an adverse impact on the Balance of Payments (BOP). Copper and gold prices increased slightly in the second half of the year, and as a result, the BOP improved in comparison with the previous year.

Current Account

The current account of the BOP showed a surplus of US\$ 16.3 million that equaled to 1.6 percent of GDP. The trade balance deficit declined to US\$ 80.2 million or 66.8 percent compared with 1998. These changes influenced favorably the current account. Exports and imports of goods made up 51.1 percent and 56.5 percent of GDP, respectively.

Foreign Trade

Total turnover of foreign trade decreased by 13.6 percent in comparison with the previous year and amounted to US\$ 902.9 million. Exports of goods declined by 6.7 percent and amounted to US\$ 431.5 million. Imports of goods dropped by 19.1 percent and reached US\$ 471.4 million. The foreign trade balance recorded a deficit of US\$ 39.9 million, which is US\$ 80.2 mil-

lion less than last year.

In spite of the slight increase in copper and gold world market prices in the last months of 1999, the annual average price of copper fell by 4.9 percent and gold dropped by 5.2 percent in comparison with the previous year. In 1999, 468.3 thousand tons copper concentrate worth US\$ 111.7 million was exported, which amounted to 26 percent of total exports. The volume and value of copper concentrate exports decreased by 3.6 percent and 10.5 percent, respectively. In the reporting period, 10.9 tons of gold worth US\$ 95.9 million was sold to international financial organizations representing 22.2 percent of total exports. The value of exported gold declined by 18.1 percent in relation to the previous year. However exports of dehaired cashmere increased by US\$ 10 million, or 30.3 percent. Copper concentrate, gold and dehaired cashmere made up 58 percent of total exports.

Export tariffs on wood and sawn woods were introduced on February 15, 1999 in order to support domestic manufacturing and protect the environment. Consequently, exports of sawn woods decreased by US\$ 29.2 million or 85.8 percent in relation to 1998.

Since Mongolia's exports remained dependent on a few primary commodities, for the purpose of supporting domestic enterprises, measures were taken to create favorable conditions for domestic manufacturing and attracting foreign and domestic investors. As a result, exports of manufactured products grew by 30.9 percent to 8.9 percent of total exports. In particular, exports of

cashmere knits and textile garments increased noticeably.

The maintenance of the floating rate regime and equilibrium of the real exchange rate of Togrog, the reintroduction of import duties from July 1, 1999, the imposition of seasonal import tariffs on some vegetables and flour, and the price increase of petroleum products, and imposition of temporary export restrictions on petroleum products in Russia all led to the fall in import volume. In the composition of imports, equipment made up 38.2 percent, energy 20.1 percent, consumer goods 19.3 percent, food 13.6 percent, and raw materials and spare parts 8.8 percent.

Service and Income

In 1999, service receipts amounted to US\$ 75.8 million while service payments equaled US\$ 88.9 million. Therefore, the balance of services recorded a deficit of US\$ 13.1 million, 12.9 percent higher than a year earlier. Besides tourism, information technology and communications have been developing rapidly in recent years.

Foreign assets deposited in central banks of foreign countries and international financial organizations rose by 37.5 percent and brought US\$ 6.7 million in interest, US\$ 1.1 million of which was interest on foreign

Table 5. Foreign trade (share of exports and imports)

	Exports		Imports	
	1998	1999	1998	1999
Industrial countries	36.4	21.5	20.8	21.8
Switzerland	20.4	0.2	0.2	0.5
United Kingdom	3.7	4.0	0.7	0.9
United States of America	8.5	13.8	7.2	6.8
Japan	3.7	3.3	11.8	12.5
Others	0.1	0.3	0.8	1.1
European Union	7.0	5.9	16.6	10.9
Germany	0.6	0.7	5.1	5.3
Italy	2.9	3.7	0.7	1.0
Others	3.4	1.5	10.7	4.5
Countries of Socialist system (formerly)	12.0	12.7	36.0	37.3
Russia	11.8	12.5	29.9	32.6
Others	0.2	0.2	6.2	4.7
Member countries of ASEAN	0.4	0.3	4.6	3.4
Singapore	0.4	0.3	3.4	2.0
Others	0.0	0.0	1.2	1.4
Others	44.3	59.5	22.1	26.6
China	29.3	57.1	11.6	15.0
Korea	9.6	0.6	7.5	8.2
Hong Kong SAR	2.6	1.1	1.6	1.9
Taiwan	2.0	0.0	0.8	1.0
Others	0.7	0.7	0.6	0.6
Total	100.0	100.0	100.0	100.0

Figure 19. Balance of Payments (by composition)

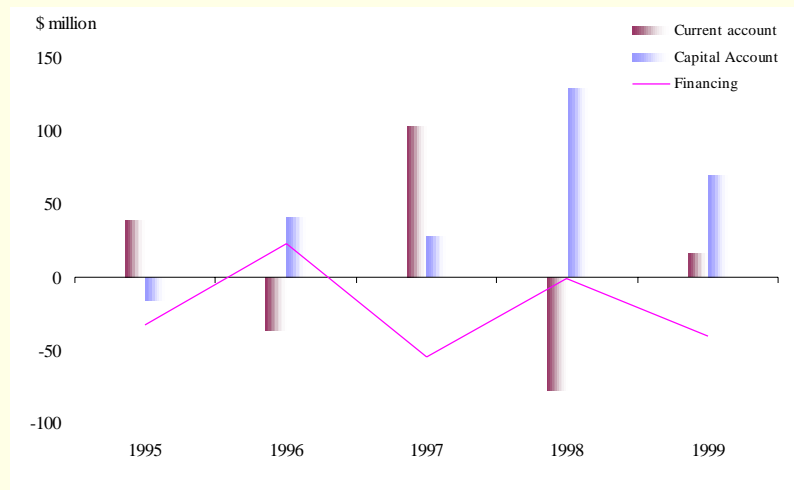


Figure 20. Structure of Current Account (\$ million)

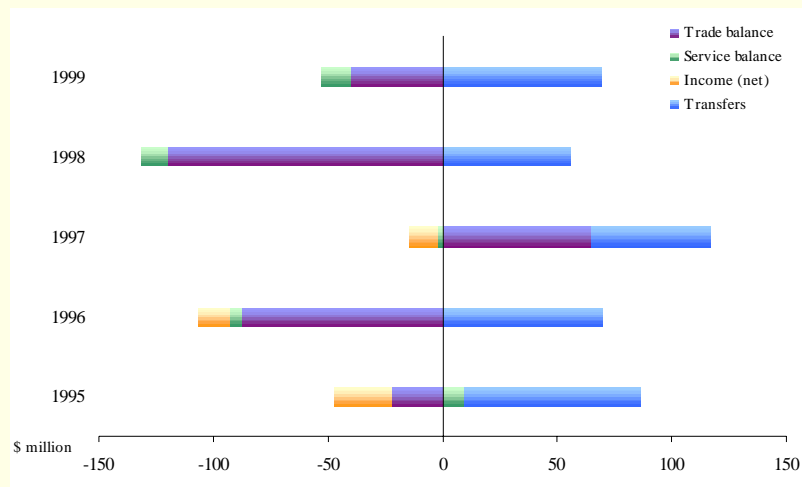


Figure 21. Structure of Capital Account

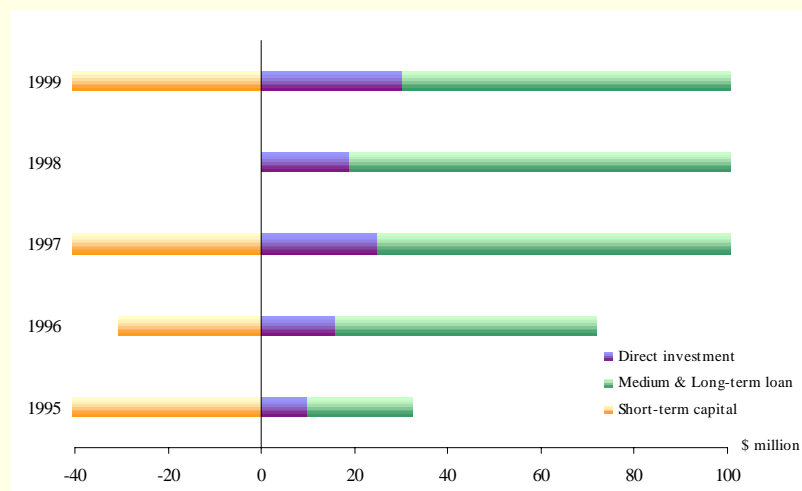


Table 6. Balance of Payments

	In millions of US dollars					
	1998	I	1999			1999 ¹
			II	III	IV	
Current account	-75.6	-20.2	-6.8	20.6	22.7	16.3
Trade balance	-120.1	-27.1	-27.2	-1.5	16.0	-39.9
Exports F.O.B	462.3	63.2	98.5	125.0	144.9	431.5
Of which : Copper concentrate	124.8	22.0	22.9	28.6	38.2	111.7
Gold	117.2	3.8	20.0	32.6	39.5	95.9
Dehaired cashmere	33.0	6.5	12.0	12.7	11.8	43.0
Others	187.3	30.9	43.5	51.1	55.4	180.9
Import C.I.F	-582.4	-90.3	-125.7	-126.5	-128.9	-471.4
Service balance	-11.6	-2.7	-3.6	0.4	-7.3	-13.1
Receipts	77.9	15.7	17.5	24.6	17.9	75.8
Payments	-89.5	-18.4	-21.1	-24.2	-25.2	-88.9
Income, net	0.4	0.6	-1.1	0.9	-0.3	0.1
Interest payments	-9.2	-0.6	-2.1	-0.7	-2.8	-6.2
Transfers, net	55.7	9.0	25.1	20.8	14.3	69.2
Private unrequited transfers	2.5	1.9	2.7	2.1	0.7	7.4
Public unrequited transfers	53.2	7.1	22.4	18.7	13.6	61.8
Capital account	128.6	5.8	21.3	16.1	26.3	69.5
Medium and long term	124.1	17.3	34.8	29.0	43.1	124.2
Direct investment	18.9	11.2	7.8	7.9	3.5	30.4
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0
Loan disbursements, net	105.2	6.1	27.1	21.1	39.5	93.8
Of which: Disbursements	122.4	10.6	31.8	25.5	44.4	112.3
Amortizations	-17.2	-4.5	-4.7	-4.4	-4.9	-18.5
Short term	4.5	-11.5	-13.5	-12.9	-16.8	-54.6
Commercial bank, net	40.0	-2.2	-3.5	-5.4	-6.6	-17.7
Nonbanks	-35.5	-9.3	-10.0	-7.5	-10.2	-37.0
Errors and omissions	-51.4	-2.9	-3.6	-12.2	-26.3	-45.0
Overall balance	1.6	-17.3	10.9	24.6	22.7	40.9
Financing	-1.6	17.3	-10.9	-24.6	-22.7	-40.9
Increase in net official reserves (-)	-5.6	21.8	-10.6	-24.6	-22.7	-36.1
Arrears accumulation (+)/payments (-)	4.0	-4.5	-0.3	0.0	0.0	-4.8
Exceptional financing (rescheduling)	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0

¹ Preliminary

securities.

Current Transfers

The number of Mongolian citizens employed in foreign countries grew, and the trend continues to go up. Thus, private transfers were increased in 1999. Public unrequited transfers rose by 16.2 percent to US\$ 61.8 million. Foreign grant accounted for 97.6 percent and humanitarian aid for 2.4 percent of total. Goods imported under grants comprised mainly equipment, vehicles, spare parts, and petroleum products. A substantial portion of the grants was received from Japan, France, the US, and the UNDP.

Financial and Capital Account

Direct foreign investment increased by 60.8 percent to US\$ 30.4 million. About 70 percent of these inflows were invested in light industry, geological exploration, prospecting and mining, transportation, engineering and construction, processing of animal origin raw materi-

als.

Capital inflows in light industry from Japan, China, Taiwan and Korea grew considerably and represented the main stream compared with inflows in other sectors. However, foreign investment in important sectors such as energy, banking and finance, and tourism was at the lowest level.

Medium and long-term loans equaling US\$ 97.2 million were received from foreign countries and international financial organizations in 1999. Loans from the ADB, Japanese government, IMF, and the WB accounted for 91.6 percent of the total received. Project loans accounted for 76.8 percent of proceeds, and 23.2 percent was used for financing the budget deficit. Net loans were equivalent to 18.5 percent of exports.

Official foreign reserves increased by US\$ 32.7 million and reached US\$ 155.8 million in 1999 thus facilitating BOP financing.

1.5. DEVELOPMENTS IN THE FINANCIAL SYSTEM

Money supply

At the end of 1999, the money supply, or M2, increased by Togrog 53 billion and reached Togrog 220.2 billion. The structure of the money supply consists of currency outside banks 58.2 percent, foreign currency deposits 38.7 percent, demand deposits 2.6 percent, and time and savings deposits 0.4 percent.

The components of the money supply have become unstable throughout the year depending on the business cycle. For example, the changes in narrow money, or M1, which is one of the components of M2, were influenced significantly by changes in currency outside banks. The changes in currency outside banks increased by 3.1 points from the average level of the last three years and accounts for about 40 percent of money supply.

This development was the result of a sharp 29.3 percent increase in currency outside the banks in April. Narrow money decreased by 28 percent during the first half of the year, then increased at a stable rate and reached the previous year level. It's lower by 1.7 percent than last three year monthly average levels.

Quasi money (time and savings deposits, and foreign currency deposits) increased by 24.4 percent from the previous year level and reached Togrog 105.3 billion, which is 47.8 percent of the money supply. The main factor contributing to this development was the increase in foreign currency deposits. Foreign currency deposits increased to Togrog 60.3 billion due to depreciation of the Togrog, even though its real change is about 26 percent.

Share of M1 in M2 was about 45-50 percent during the first half of 1999, and increased to 50-54 starting from the second half of the year.



Figure 22. Structure of Money Supply

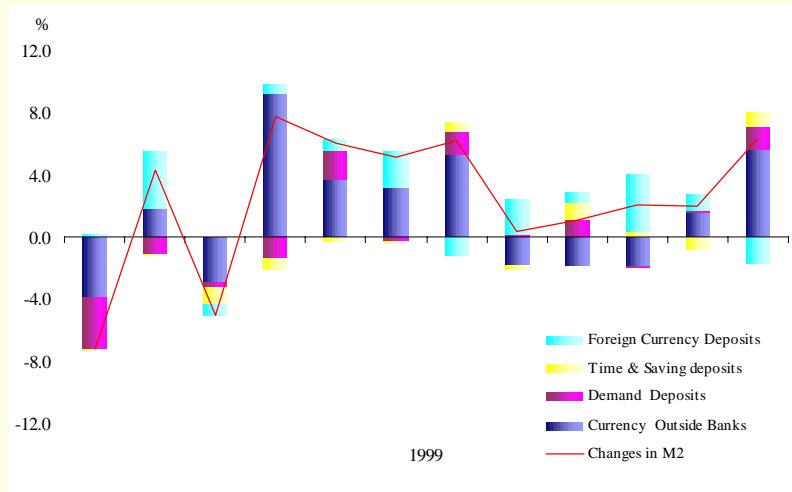


Figure 23. Reserve Money and Central Bank Bills

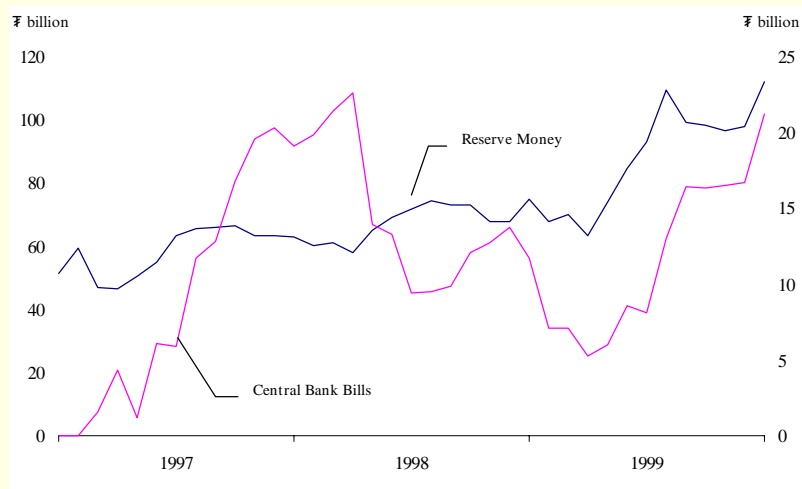
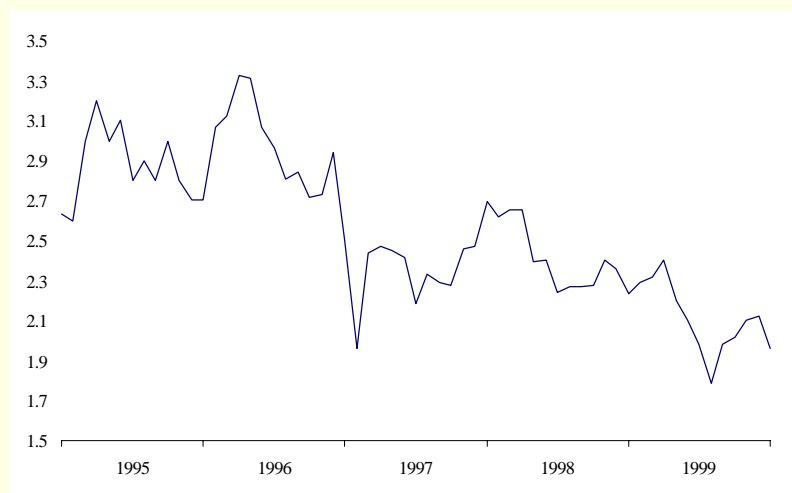


Figure 24. Money Multiplier



Changes in money supply were as follows: net foreign assets increased by 73 percent reaching Togrog 167.5 billion; net domestic assets fell by 14.3 percent, totaling Togrog 116.6 billion. Depreciation of the Togrog and decrease of import volume by 15 percent were the main factors caused increase of net foreign assets. Export revenue from gold, copper, cashmere, and textiles, which are the main sources of foreign currency, contributed to this development.

Net domestic assets decreased by 30.2 percent from 1998. This was mainly caused by a Togrog 34.5 billion (16.6 percent) decrease in Government net credit. Net loans outstanding to public and private sectors fell by Togrog 40 billion (35.5 percent). The reduction in loans outstanding was mainly due to bad portfolio quality. The share of non-performing loans in the total loan portfolio is 53.8 percent.

Money Market

The money market is one of the profitable and largest parts of a national financial system. It is one of the components of four basic financial markets, and in comparison with the others it is widely used and regulated more open. Highly liquid, short-term and low risk payment instruments such as certificate of deposits, promissory notes, short-term Central Bank and Government bonds, and bankers' acceptances are traded on this market. These instruments have a great demand and tradeable on the secondary market during a short period.

The money market provides a liquid, short-term invest-

ment for savers and a source of funds for corporations. The participation of individuals in the money market is relatively small. Mostly enterprises and banks with excess loanable funds use them for short periods. Also the information on money market is important to regulate money supply, interest rate and inflation rate.

In developed countries, the market plays an intermediary role for the financial market. For example, the money market in the United States has so highly developed that it has become an international short-term capital market. The money market in Mongolia has been introduced after development of the capital market where only long-term financial instruments are traded, and it is in the first stage of its development. Central Bank bills play a major role in the money market as before. However, Government Restructuring Bonds, Government Bonds, and Treasury Bills still have weak demand due to their default risk and usage not in accordance with their purpose. Therefore, it's important to stimulate their demand and use them widely as new financial instruments.

Central Bank bills were issued 43 times during the year; the daily average balance was Togrog 11.9 billion. By establishing a necessary legal basis, Central Bank bills became open for secondary market trading. As a result, banks traded Togrog 3.9 billion in Central Bank bills in 1998, and Togrog 10.4 billion in 1999. The increase in trading volume between banks happened because:

- Interest rate default risk has been lowered as a result of introducing a discount rate to facilitate open

Figure 25. Monetary Aggregates (monthly changes)

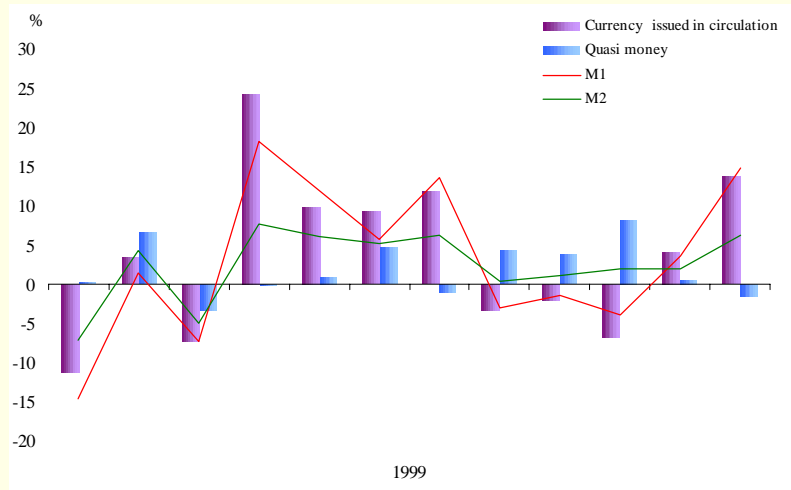


Figure 26. TOP-75 Index

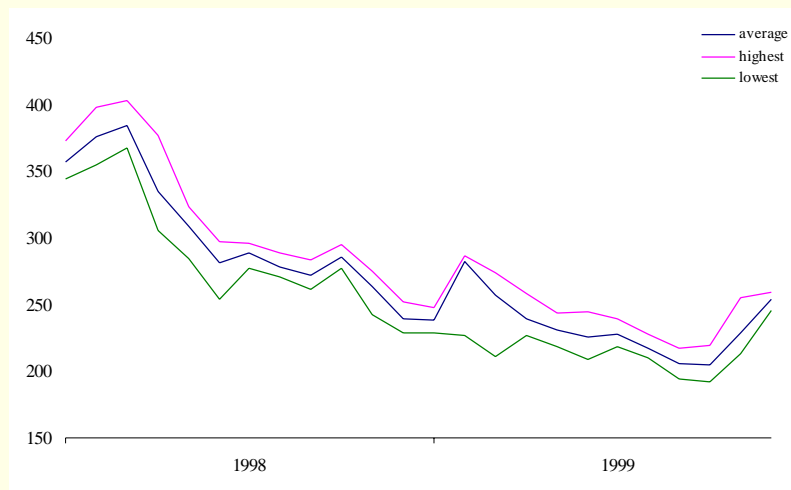
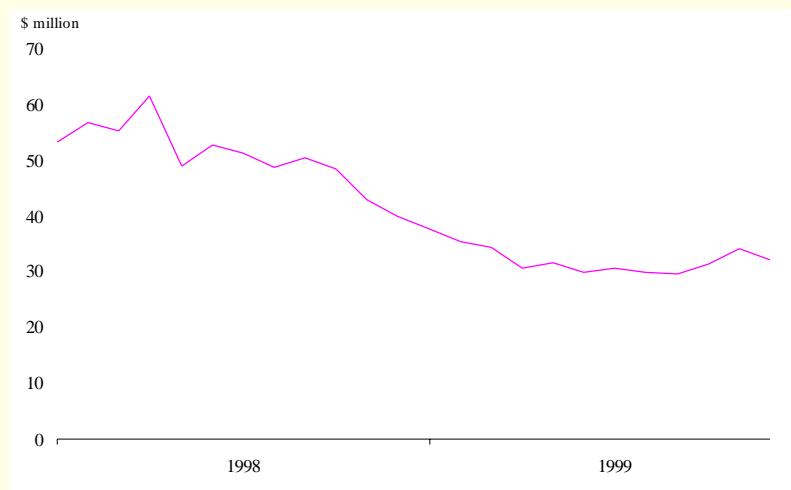


Figure 27. Market Capitalization



- market operation,
- The Central Bank played an active intermediary role,
- The decrease in the inflation rate and its future stabilizing trend made it possible to use not only interest rate policy, but also Central Bank bills to influence the quality of assets and liabilities of banks.

In many industrialized countries large, high-quality companies and corporations issue promissory notes and other types of securities in order to finance plant and equipment spending. However, participation of companies and corporation in the operation of financial market in Mongolia is still limited.

Another important part of money markets is the inter-bank market, which represents short-term loans between banks of their deposits with the Central Bank. The majority of transactions in this market are made for the purpose of meeting reserve requirements. Large amounts of money for very short periods are traded in this market (from 1 to 14 days).

In 1999, a new financial instrument, called a repurchase agreement or “repo”, was introduced. Designed to develop open market operations and lower the lender default risk, repos were issued three times at the Savings Bank during the year. This was an important step to use repos as a monetary and money market instrument. Repos are used by central banks for monetary purposes and by banks for cash management. In order words, it

is a one form of guaranteed loan with low cost and risk.

Stock Market

In 1999, the Mongolian Stock Exchange (MSE) traded 21.5 million shares totaling Togrog 3.3 billion, which is lower than the average level of preceding years. The current economic situation and unstable operation of banks and enterprises mainly caused this outcome.

Company Law was adopted by Parliament, which made big changes in stock prices and secured the rights of small investors. The MSE initiated use of a consolidated index, the Top-75 index reached 200-250, and the value of certified privatization vouchers were indexed. For example, 40 percent of the 36.8 million shares of the “State Department Store” privatized. Also, shares of “Mongol Leather” Shareholder Company had great demand and a high price. In total, 1.6 million shares were sold and Togrog 500 million in transactions were completed on the stock market during 1999.

The State Property Committee completed privatization of 15 large state-owned enterprises and five public enterprises by sealed-bid auction generating income of Togrog 8 billion. Also, 338 enterprises and 40 capital assets were privatized bringing Togrog 1.9 billion revenue in budget.

As a result of amendments made to the privatization program of 1997-2000, 16 larger companies were excluded from the auction program to permit them to be sold on a case-by-case basis. These include the Gobi

Cashmere Factory, the Petroleum Import Concern (NIC), the Trade and Development Bank, Mongolian Insurance, Agricultural Insurance, and Tushig.

Barents Group, which is implementing the project by USAID financing, is now preparing the most costly public enterprises for privatization such as MIAT Airlines, the State Department Store, Gobi Cashmere Factory, NIC, Concrete and Chalk Factory, and the Trade

and Development Bank by international tender method. The financial statements of Gobi Cashmere Factory, NIC, and the Trade and Development Bank have been audited by well-known international auditing companies. Moreover, the preparation to conduct a restructuring program of power plant and the privatization of power plant maintenance depot is on track. As of the end of 1999, privatized apartments represented 89.5 percent, or 75.1 thousand, of all residential quarters.

1.6. DEVELOPMENTS OF FINANCIAL INSTITUTIONS

Current Status of the Banking System

As of the end of 1999, 12 banks were operating in the banking system of which 6 banks had state-owned participation in their equity funds and 6 were owned by the private sector. In 1999 Anod, Zoos and Ulaanbaatar City Banks were granted banking licenses. The banking licenses of Ulaanbaatar, Asian Investment, Bayanbogd, MM Invest, Reconstruction, ITI and Export Import Banks were revoked. The total number of banking entities was 421: 74 branches, 341 sub-branches, and 18 cash offices, which incorporated over two thousand employees. The figures of the seven liquidated banks have been excluded from the estimation of aggregate indicators of the banking system.

Because of the economic crisis and other factors were

evidencing at the beginning of the transition period, the main indicators of the banking system have had a sharply worsening trend from the year 1991. As a result of actions taken to overcome the crisis, the deterioration has been slowed down and the situation has become quite stable.

The ratio of money supply to GDP, which represents the development of the banking system, was 52 percent in the year 1991, decreased annually by an average of 30 percent, and was 22 percent at the end of 1999. In recent years the situation has been quite stable, and therefore the ratio has fluctuated between 20 and 23 percent.

As of the end of 1991, the banks' total assets were estimated at 87 percent of GDP and total liabilities at 78 percent of GDP. In 1991-1996 these ratios declined annually by an average of 13 and 11 percent, respectively, resulting in final ratios of 22 percent and 24 per-



cent in 1999. In recent years the ratios haven't experienced serious changes, which reflects a stabilizing trend in the banking system.

From 1991 to 1992, the ratio of the currency outside the banks to M2 fluctuated between 14 and 17 percent due to the Bank of Mongolia's intervention by establishing high bottom limits for nominal interest rates on banks' deposits. As result of a liberalization of prices, a decrease in real interest rates caused by high inflation, the insolvency of some banks, and a deterioration of public confidence in the banking sector, the above mentioned indicator has increased sharply to 40 percent in 1999. In 1999 reserve money has grown more quickly than deposits which resulted in an increase in the indicator of 6 basis points. If the last changes of the indicator were ignored, the ratio would show a quite

stable growth.

Assets

In 1999 the banks' total assets increased by Togrog 2.3 billion, or 1.3 percent, to Togrog 181.8 billion. Total assets were composed of the following items: 18.6 percent net loans, 24.7 percent foreign assets, 19.6 percent net claims on the Government, 12.7 percent primary reserves, 11.7 percent Central Bank bills and 12.7 percent other assets. In 1999 Central Bank bills grew by 81.2 percent, foreign assets by 71.7 percent, and primary reserves by 24.8 percent. Net claims on the Government declined by 6.6 percent, net loans by 43.3 percent, other assets by 10 percent.

The balance of total loans declined by Togrog 39.2 bil-

Table 7. Consolidated Balance Sheet of Banking System

Assets	In millions of Togrog		
	1999	1998	Changes %
Bank Reserves	23,013.0	17,920.6	28.42
Central Bank Bills	21,203.9	11,697.0	81.28
Foreign Assets	44,838.2	26,115.7	71.69
Claims on Government	35,785.8	38,328.4	-6.63
Claims on Nonbanks, net	33,891.7	59,817.7	-43.34
Other Assets	23,033.2	25,604.5	-10.04
Total Assets	181,765.8	179,483.9	1.27
Liabilities & Capital	1999	1998	Changes %
Current Accounts	58,739.6	51,495.1	14.07
In Domestic Currency	24,494.5	26,136.2	-6.28
In Convertible Foreign Currency	34,245.1	25,358.9	35.04
Deposits	67,883.9	59,308.7	14.46
In Domestic Currency	43,377.1	44,840.1	-3.26
In Convertible Foreign Currency	24,506.8	14,468.6	69.38
Foreign Liabilities	7,508.0	19,973.4	-62.41
Deposits of Government	19,620.8	20,081.2	-2.29
Other Liabilities	9,479.5	21,564.4	-56.04
Total Liabilities	163,231.8	172,422.8	-5.33
Capital	18,534.0	7,061.1	162.48
Total Liabilities & Capital	181,765.8	179,483.9	1.27

lions, or 44.3 percent, which was mainly caused by the exclusion from these figures the loans of liquidated banks such as ITI and Reconstruction Banks, etc. The ratio of non-performing loans to total loans declined by 3.8 basis points to 37.3 percent. The total amount of loans granted by banks in 1999 was Togrog 68.8 billion. If loans granted before 1999 were included in the estimation, the loan coverage ratio would be 55 percent. 44 percent (Togrog 30.2 billion) of total loans were used by the industrial sector of the economy, and the remaining 56 percent (Togrog 15.4 billion) were used by the non-industrial sector. Of industrial sector loans, 51 percent (Togrog 15.4 billion) were used by manufacturing companies and 39.1 percent (Togrog 11.8 billion) by mining companies. Almost 93.2 percent of loans advanced to the non-industrial sector were used by service providing companies.

42.2 percent of total non-performing loans were associated with industrial companies while the remaining 57.8 percent were with non-industrial companies. 97.8 percent of the outstanding balance of loans granted to real estate and business services companies were classified as non-performing, while the same indicator was 16 percent for loans granted for construction purposes.

Liabilities and Capital

In 1999 total liabilities of the banking sector increased by Togrog 9.2 billion, or 5.3 percent, to Togrog 163.2 billion. Total liabilities were composed of the following items: 77.6 percent deposits of individuals and private enterprises, 12.0 percent Government deposits, 4.6

percent foreign liabilities, and 5.8 percent other liabilities. Deposits of individuals and private companies increased by 14.3 percent. Foreign liabilities declined by 62.4 percent, Government deposits by 2.3 percent, and other liabilities by 56 percent, respectively.

Almost 360 thousand depositors (90 percent of all depositors) had investments in savings and time deposits, with balances less than Togrog 100 thousand. Total deposits of customers, with deposit balances exceeding Togrog 1 million, amounted to 81 percent of all savings and time deposits. Individuals own 91.4 percent of all savings and time deposits, while private companies own 4.2 percent and the Government 4.4 percent. Regarding deposits, 5.9 percent were owned by individuals, 55.8 percent by private enterprises, and 38.3 percent by the central and local Governments.

In 1999 the total capital of the banking sector increased by Togrog 11.5 billion to Togrog 18.5 billion. The minimum equity capital requirement, which had been Togrog 400 million, was increased to Togrog 1 billion effective September 1, 1999. A subsequent increase to Togrog 2.0 billion took effect in 2000. As a result of this, there was an increase in the equity capital of certain banks in the banking sector. Due to the exclusion of figures of some banks such as ITI and Reconstruction, however, the total amount of equity capital was lower from the previous year level by Togrog 12.9 billion. As of the end of 1999 the estimated current year loss of the banking system amounted to Togrog 2.8 billion, versus the Togrog 14.4 billion loss at the end of the previous year. The improvement was partially caused by the exclusion

Figure 28. Broad Money M2 (percentage of GDP)

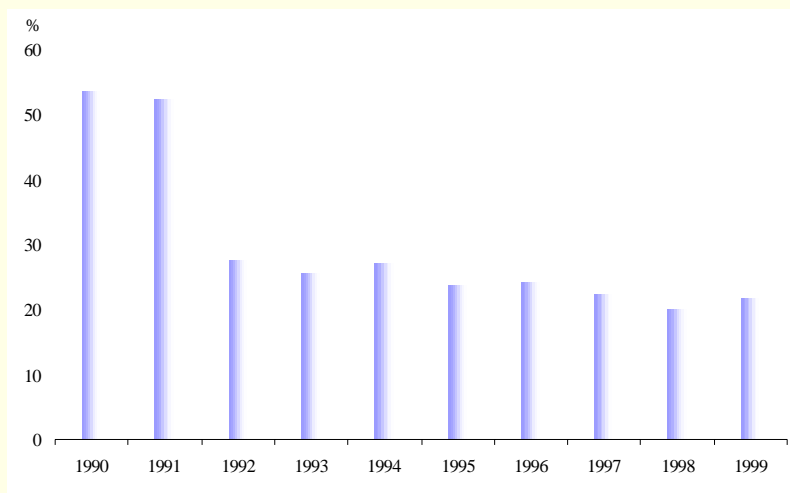


Figure 29. Banking System Assets (percentage of GDP)

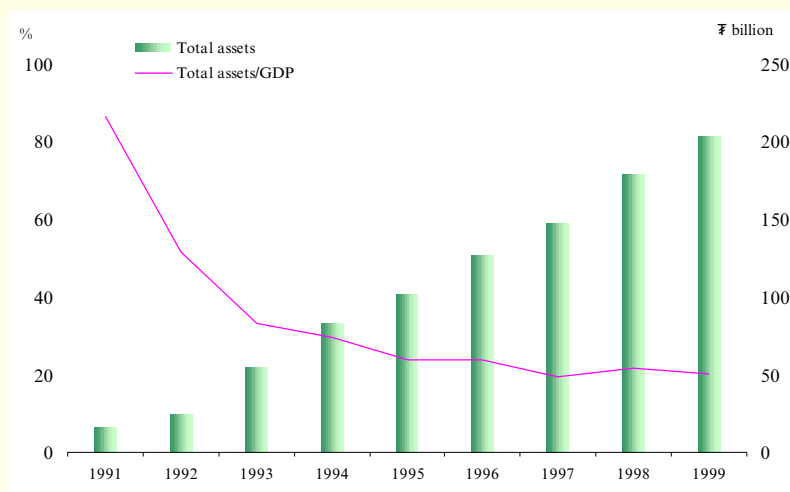
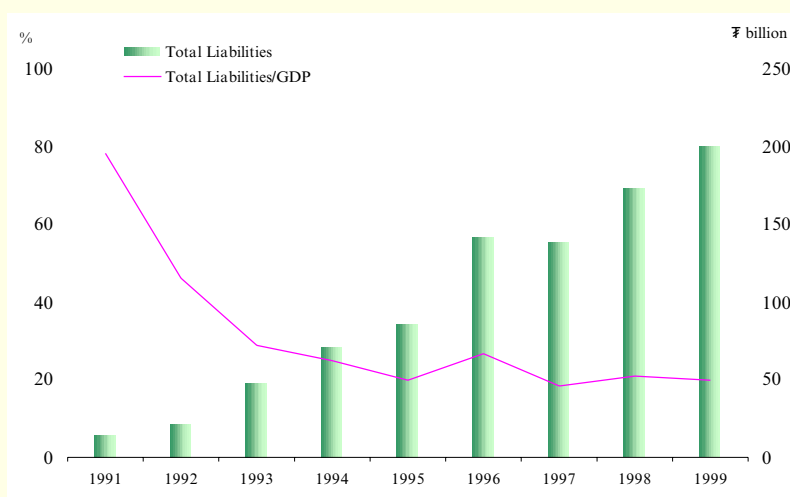


Figure 30. Banking System Liabilities (percentage of GDP)



of the figures of liquidated banks.

Government Securities

As of the end of the year, five banks had investments of Togrog 38.1 billion in Government securities composed of bank restructuring bonds (Togrog 28.4 billion), bonds (Togrog 8.4 billion) and bills (Togrog 1.3 billion).

In 1996 some of the non-performing assets of the liquidated People's and Insurance Banks were transferred to the Mongolian Asset Recovery Agency (MARA). The remaining part was replaced by the Government restructuring bonds and placed in the newly established Reconstruction and Savings Banks. In order to pay interest on deposits, settle delayed payments, provide funds for the equity capital of the newly established banks, and to permit banks to meet the reserve requirement, the Bank of Mongolia has bought some of these securities.

The Agricultural Bank had investments of Togrog 238.2 million in Government securities, which were the result of the transfer of deposits from the Reconstruction Bank. The total amount of the Government securities bought by the banks was as follows: Savings bank Togrog 26.5 billion, Reconstruction Bank Togrog 8.6 billion, and

Agricultural Bank Togrog 0.2 billion. The total amount of the securities bought back by the Government was as follows: from the Savings bank Togrog 1.5 billion, from the Reconstruction Bank Togrog 5.3 billion, and from the Agricultural Bank Togrog 0.2 billion.

In order to finance its activities, the Government has issued specific short-term bills for the banks since December 1996. During this time, four banks have purchased a total of Togrog 49 billion in securities with average maturities from 14 to 240 days and with annual interest rates of 9.6-48 percent.

The Ministry of Finance has replaced all inherited and directed loans (Togrog 1.6 billion), by issuing Government bills and placing them in the Trade and Development Bank. The outstanding amount of these bills has been reduced by Togrog 319.7 million to Togrog 1.3 billion.

Almost 60.2 percent of individuals' deposits were invested in Government securities, which were non-negotiable, thereby tying up the money by removing it from circulation, limiting financial intermediation, and hindering the sound market practices which should be adhered by the financial system. The Savings Bank has invested Togrog 28 billion (90.3 percent of individu-

Table 8. Government securities

	Savings	Reconstruction	Trade & Development	Golomt	Shuudan	Total
Restructuring bond	25.1	3.3				28.4
Bond	3.0		3.2	2.1	0.1	8.4
Treasury bills			1.3			1.3
Total	28.1	3.3	4.5	2.1	0.1	38.1

Figure 31. Non-performing Loans (percentage of loans outstanding)

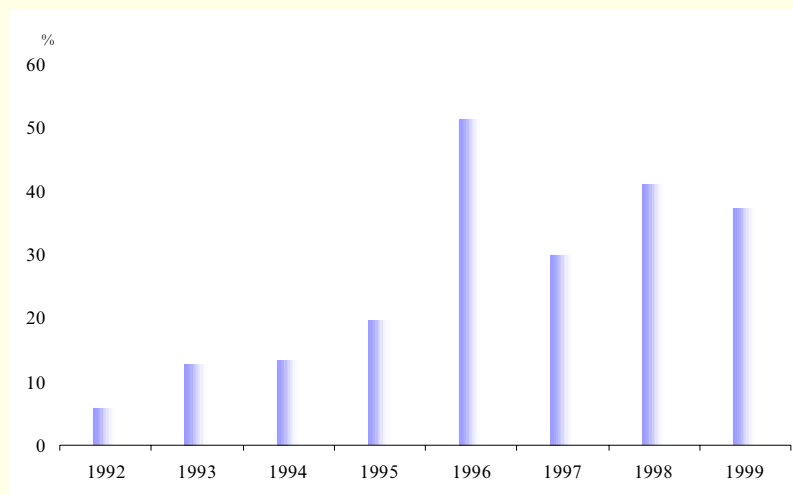


Figure 32. Banking system assets (by structure)

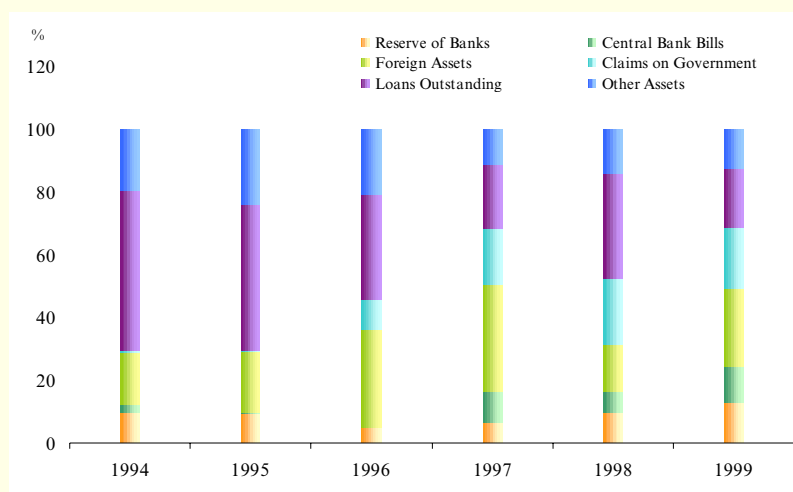
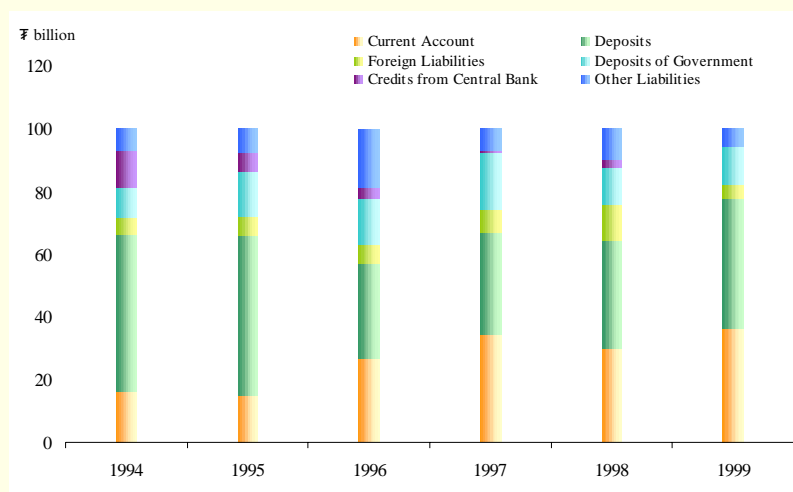


Figure 33. Banking System Liabilities (by structure)



als' deposits) in Government securities. Some strong actions have been taken to make the Government securities negotiable, to establish their interest rates in accordance with the interest rates of the Bank of Mongolia bills, and to pay interest on time.

Non-Bank Financial Institutions

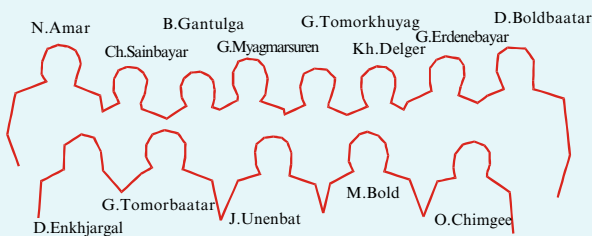
To expand the financial system and develop non-bank financial institutions (NBFIs) the Bank of Mongolia

has granted licenses to two NBFIs: KHAS (Golden Development Foundation) and Bayanbogd.

As of the end of 1999, total assets of NBFIs were Togrog 490.7 million composed of cash (5.0 percent), deposits with domestic banks (34.3 percent), loans (52.7 percent) and other assets (8.0 percent). The composition of liabilities and capital was as follows: 51.9 percent long-term liabilities, 1.2 percent other liabilities, and 46.9 percent capital.

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POLICY BOARD



G. Myagmarsuren
Accounting & Interbank Settlement Department

G. Tomorkhuyag
Director of Foreign Exchange Policy & Reserve Management Department

Kh. Delger
Director of Internal Auditing Department

G. Erdenebayar
Director of Legal Division

D. Boldbaatar
Monetary Policy Department

J. Unenbat
Governor of the Bank of Mongolia

M. Bold
Deputy Governor of the Bank of Mongolia

D. Enkhjargal
Director of Supervision Department

G. Tomorbaatar
Director of Banknote & Treasury Department

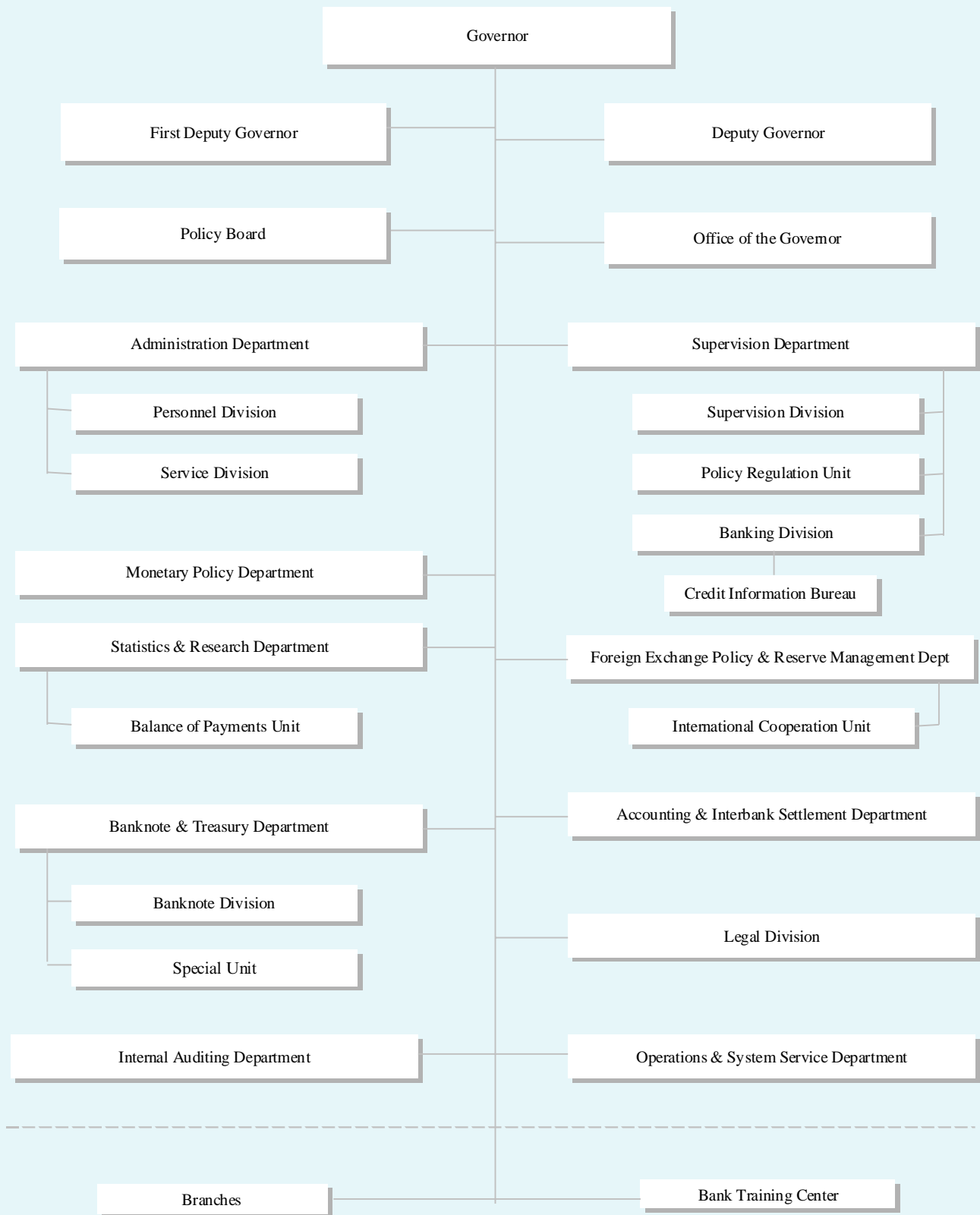
O. Chimgee
Assistant to Governor

N. Amar
Director of Statistics & Research Department

Ch. Sainbayar
Director of Administration Department

B. Gantulga
Director of Operations & System Service Department

STRUCTURE OF THE BANK OF MONGOLIA



2. CENTRAL BANK POLICIES, OPERATIONS AND ACTIVITIES

2.1. MONETARY POLICY DEVELOPMENT

In 1999, implementation of State Monetary Policy Guidelines by the Bank of Mongolia was aimed at ensuring Togrog stability, intensifying financial sector restructuring and improving the quality of financial intermediation. During the year, particular attention was paid to implementing monetary policy consistent with the terms of agreements entered into with the International Monetary Fund and other international financial institutions.

For the purpose of achieving the above goals, the Bank of Mongolia utilised monetary policy instruments as provided for in the relevant banking legislation. The Bank of Mongolia continued to pursue a policy of influencing the money supply through control of the amount of Central Bank bills issued and the interest payable thereon. Even though monetary policy remained tight, the impacts of monetary supply shocks on the economy were observed at the beginning and during the middle of the year. In addition, as a result of the insufficient collection of budget revenues, the practice of financing the State budget deficit through Central Bank loans was continued.

Despite reduction of the interest rate paid on Central Bank bills in relation to the rate of inflation, real interest rates charged by commercial banks remained high. High interest rates rendered financial intermediation

ineffective and destroyed the opportunity to promote real economic growth. Furthermore, deterioration of liquidity and the weakening of public trust in the banking system impaired operations of the capital markets, and the underdevelopment of non-banking financial institutions had a negative impact on the current money supply and the financial system. In addition, due to insufficient accumulation of funds in the banking system, which is a main financial intermediary, and the failure to reduce the Government's net credits, the amount of funds distributed to the real economy did not increase.

As a result of more effective use of monetary policy instruments, and improvement in the co-ordination and efficiency of such instruments, the inflation rate was held to 10 percent, and net foreign reserves (the amount sufficient to cover the import needs of the country) increased to 14.3 weeks.

Reserve Money

The Bank of Mongolia restricted and stabilised the expansion of reserve money through direct and indirect monetary tools.

The increase in reserve money, compared to the beginning of the year, by 49.9 percent to Togrog 112.1 billion, was directly related to the growth in the net foreign assets held by the Bank of Mongolia. In the first quarter of 1999, the amount of reserve money remained at the same level as in the preceding year. In April and July, extension of credit facilities by the

Central Bank to the Government, for the purpose of financing seasonal budget deficits and allowances, pensions and salaries of State workers, resulted in the growth of reserve money. Active regulation of reserve money through the issuance of Central Bank bills, which is one of the indirect monetary policy tools of the Central Bank, restricted a potentially large increase in reserve money as well as provided opportunities for commercial banks to allocate their reserves more efficiently. In December, the Bank of Mongolia transferred its obligation under the loan guarantee issued to Buligaar Joint Stock Company to the Government (Ministry of Finance), which action resulted in the expansion of reserve money by Togrog 14 billion.

Cash in circulation and bank reserves, which are the components of reserve money, grew by 48.2 percent and 57.7 percent, becoming Togrog 91.6 billion and Togrog 20.5 billion respectively. Throughout the year, cash on hand in commercial banks remained relatively stable,

but currency held outside such banks increased by 54.8 percent compared to the preceding year. This increase was caused by the impaired public trust in commercial banks caused by the significant deterioration during 1999 of the liquidity of several of the larger banks, the inability of certain commercial banks to settle their customers' transactions in a timely manner, delay in the delivery of allowances, pensions and salaries in the countryside due to the liquidity problems of certain commercial banks, and the delay in the remittance of funds to depositors of insolvent banks.

The current account balance of commercial banks at the Central bank increased by 57.7 percent during the fiscal year. This increase resulted from the establishment of three new commercial banks, a new requirement that all banks increase their charter fund to a minimum of Togrog 1 billion and the placement of receivership over some banks, which receivers then caused such banks to fund their accounts at the Central Bank. The average monthly



current account balance of small banks held by the Central Bank grew by 80.8 percent in the last half of 1999 as compared to the same period of previous year. This increase resulted from the settlement of accounts by some of the illiquid banks and the transfer of funds to more productive institutions. In addition, the increase in liquid assets of the Savings Bank, the bank which holds the majority of the savings of the people of Mongolia, had a positive impact on the current account increase.

Net Foreign Assets

As a result of the reduction of total imports by 15.4 percent, or US\$ 77.5 million, in comparison to the previous year, net foreign assets held by the Bank of Mongolia expanded by 67.4 percent, reaching Togrog 130 billion by the end of 1999. Such growth, without taking into account the depreciation of the Togrog, was 40.8 percent. Falling exports, however, resulted in a temporary decrease in net foreign assets.

Net Domestic Assets

In 1999, net domestic assets declined by 5.4 times, to Togrog 17.9 billion. Though claims on the Government rose as a result of its receipt of credits from the Bank of Mongolia to finance seasonal budget deficits, by the end of the year the total claims on the Government had returned to the previous year's level. Furthermore, Government deposits increased by Togrog 1.9 billion, reaching Togrog 4.8 billion. These factors resulted in a decrease in net credits to the Government. While some

Central Bank loans to commercial banks were extended in the form of repos and short-term loans, total Central Bank claims on commercial banks remained at the level of the previous year. The main reason for the decrease in net domestic assets was caused by the decline in loans to the public sector by Togrog 4.4 billion, to a total of Togrog 4.5 billion outstanding. Other net assets remained at the same level as during the preceding year, but owner's equity in commercial banks decreased to Togrog 2.3 billion, causing further decrease in net domestic assets.

Monetary Policy Instruments

The fiscal year has been a year in which indirect monetary policy instruments were used to a greater extent. Adjustment of certain factors such as amount, interest and discount rates of Central Bank bills (CBB) was the most actively used policy tool. As well the enforcement of a floating system to co-ordinate other interest rates to the CBB rate obtained some positive results. Opportunities to trade, pledge and re-purchase CBBs, including the sale and purchase of such bills on the inter-bank market at a time when these bills were in high demand, caused this instrument to become an extremely flexible tool which could be used in conformance with market principles. In addition, the adjustments activated an inter-bank money market and improved the efficiency of this monetary tool.

Loans granted to the Government for the purpose of ensuring economic stability were intended to eliminate the time discrepancy in budget revenues and

Figure 34. Reserve Money and Net Foreign Assets

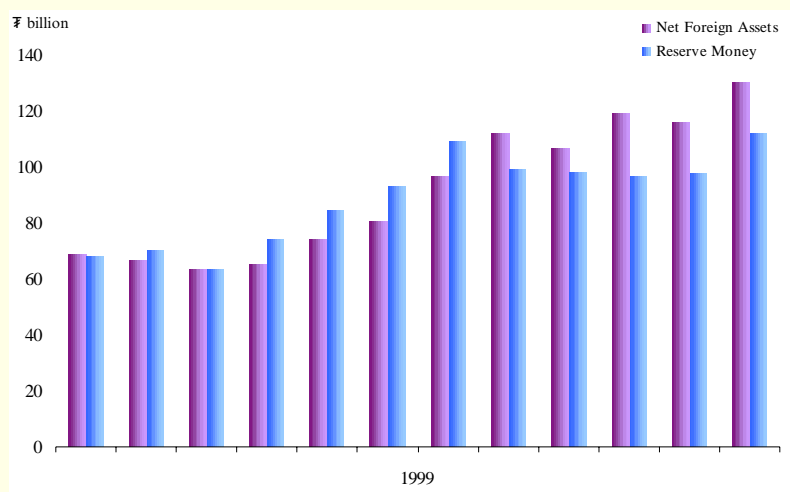


Figure 35. Changes of Net Foreign Assets and Domestic Credit

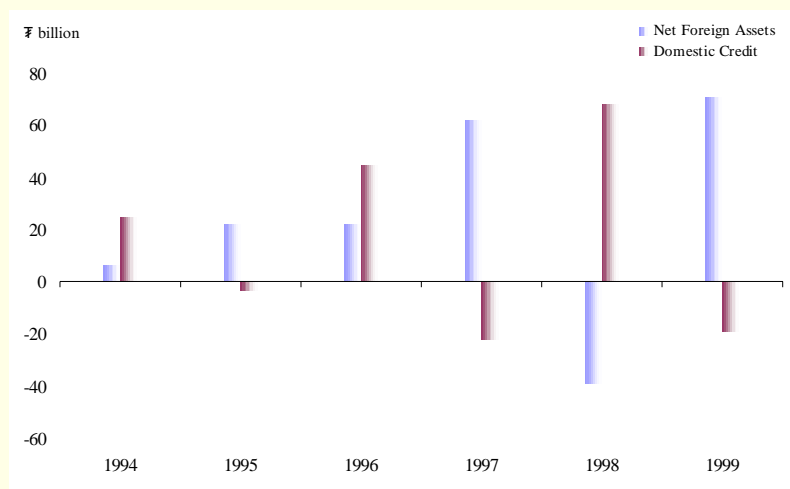
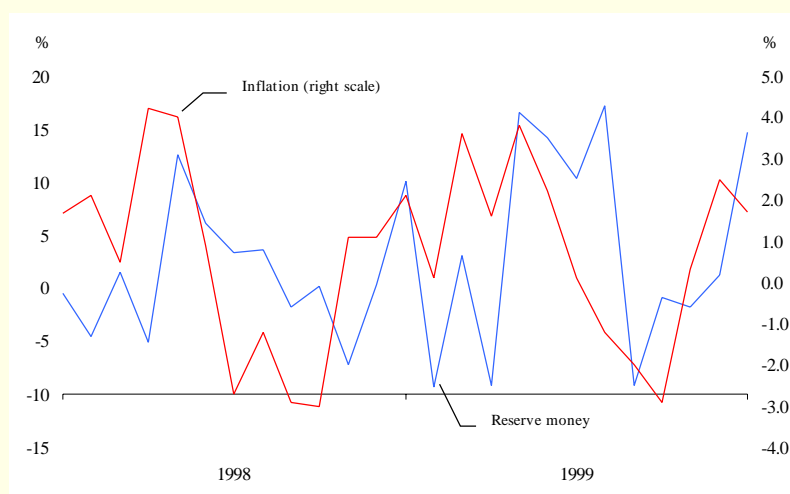


Figure 36. Reserve Money and Inflation



expenditures. In comparison, loans extended to commercial banks were intended, with respect to the banks with heavily impaired liquidity, to protect the national payment and settlement system risk, and with respect to the remaining banks, to avoid temporary deficiencies in required reserves. The prior situation where commercial banks encountered fund deficiencies as a result of the over extension of loans and therefore applied for credit to the Central Bank was not repeated.

Reserve Requirements

For the purpose of regulating money supply, ensuring the liquidity of banks and protecting the interests of depositors, the Bank of Mongolia requires commercial banks to hold a certain amount of their deposits as required reserves. During the year, the Bank of Mongolia continued monitoring compliance with such requirement on a daily basis.

In order to enforce compliance by the banks with reserve requirements, in accordance with the regulation on the calculation of reserve requirements and monitoring of performance approved by the Governor of the Bank of Mongolia in 1998, the calculation of reserves was made twice a month. Pursuant to the regulation, reserves deposited in the current account at the Bank of Mongolia earned interest and failure to comply with reserve requirements was penalised. In 1999 interest of Togrog 504.7 million was paid by the Central Bank on reserve deposits of commercial banks, and penalties of Togrog 935.5 million were imposed on banks failing to meet such reserve requirements. Within the banking system

as whole reserves were in great deficiency during the first half of the years. However, by the second half of the year reserves reached the required level.

During the year the reserve requirement was set at 14 percent. Because of the deterioration of the financial viability of some banks, and for the purpose of protecting the interests of depositors, such rate was not changed.

Credit Ceilings

For the purpose of preventing payment and settlement delays in the banking system resulting from excessive investment in high-risk assets, by resolution of the Governor of the Bank of Mongolia credit ceilings were imposed with respect to the amount of loans which could be extended to business entities and organisations or individuals by banks which failed to meet reserve requirements, prudential banking ratios or violated other rules and regulations applicable to banking operations. Monitoring of compliance with applicable regulations was done on a monthly basis. In 1999 fines totalling Togrog 175.2 million were imposed on banks which had violated the credit ceiling requirements.

During the fiscal year regulations on the establishment of credit ceilings, methods to assess the performance and the imposition of penalties in case of non-compliance, were developed in consistency with law. Such regulations were approved by the Governor of the Bank of Mongolia and came into force from the second half of 1999. These regulations had a significant impact in preventing banks from extending loans in excess of

Figure 37. Changes in Domestic Credit (by sector)

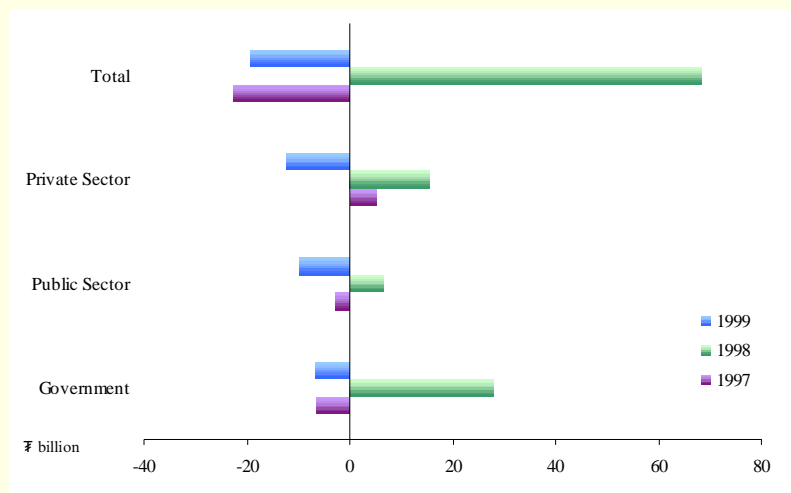


Figure 38. Reserve Requirement

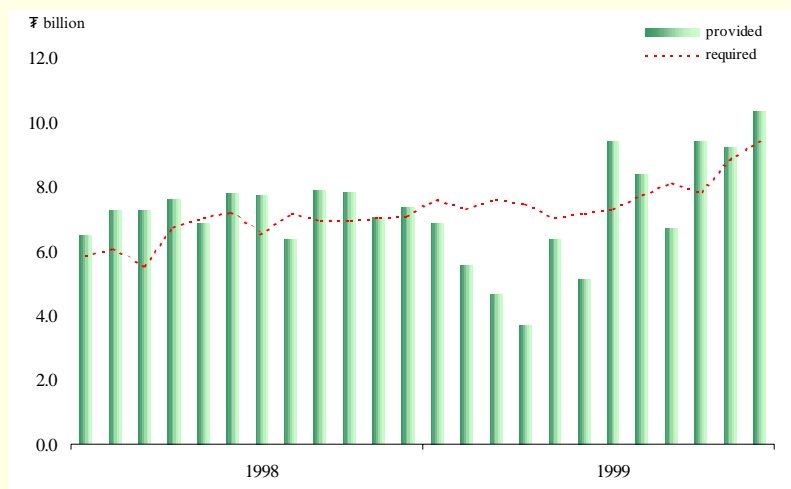
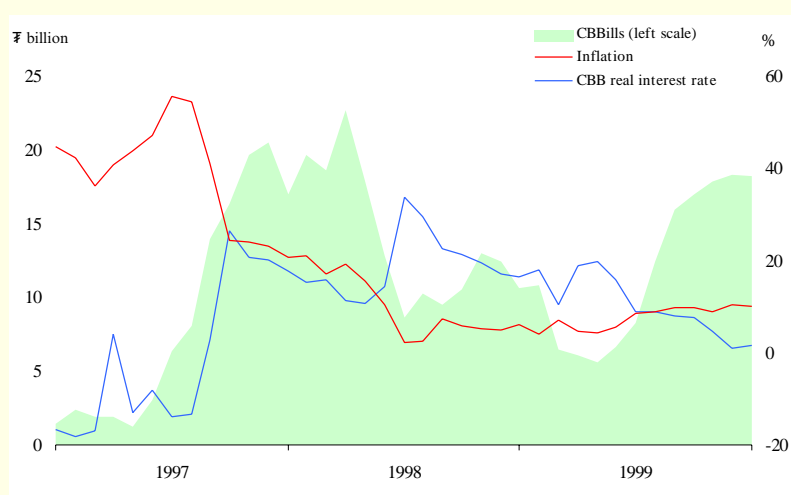


Figure 39. Central Bank Bills and Interest Rate



their capability, which practices would have led to a weakening of their solvency and led to delays in the settlement of customer transactions.

Central Bank Bills

Central Bank bills (CBB) are aimed at the regulation of money supply and reserve money in the economy as well as the indirect management by the Central Bank of the excessive reserves of commercial banks. Since changes in the CBB interest rate reflect the interest policy of the Bank of Mongolia, the real interest rate of CBBs was established at a real positive level and such rate was used in connection with other monetary policy tools. In addition a policy of increasing the use of CBBs in the money market was implemented by the Central Bank. Establishment of a positive real interest rate above the inflation rate in order to neutralise seasonal activation had a positive impact on the demand by commercial banks to purchase CBBs, thus improving the asset quality of many commercial banks. As the inflation rate was relatively stable throughout the year, interest on CBBs was determined in direct relation to inflation and a policy was followed of reducing such rate from the level of the previous year in order to affect a reduction in loan and deposit interest rates of commercial banks. In 1998 the average interest rate on CBBs was 28.7 percent per annum and a total of Togrog 4 billion of interest was paid thereon. In 1999 the average interest rate was reduced by 12.8 points to 15.9 percent per annum, and 2.0 billion Togrog of interest was paid thereon.

Although the decline in the interest rate on CBBs was

designed to influence interest rates across the whole banking system, such a result was not achieved. This could be attributed to distortions in the payment and settlement system, unequal possession of information, and the efforts of commercial banks to recover losses from non-performing loans extended at an earlier time.

Beginning in October, for the purpose of enhancing the trading of CBBs, bills were sold with a maturity of 7, 14 and 30 days. Considering that the amount of CBB sales directly relates to interest rate changes, and the possibility of co-ordinating the short term financial soundness and liquidity of commercial banks through the amount and interest on short term CBBs, bills with a 7 day maturity were issued and sold in the largest quantity. In the first half of 1999, the average daily balance of CBBs sold was Togrog 7.3 billion, which was increased to Togrog 16.6 billion by the second half of the year. This increase had a certain impact on stabilising inflation and favourably affected the financial stability of the commercial banking sector.

Credits to Commercial Banks

One indirect monetary policy instrument is re-financing credits granted by the Central Bank to commercial banks. In fiscal 1999, in accordance with re-financing regulations, secured loans in the amount of Togrog 22.5 billion were extended to 6 commercial banks. During this same period Togrog 23.3 billion in loans were repaid. For the purpose of diminishing delays in payments and settlements encountered throughout the banking system, and to enable payment of allowances

Figure 40. Changes in Money Supply (by sources)

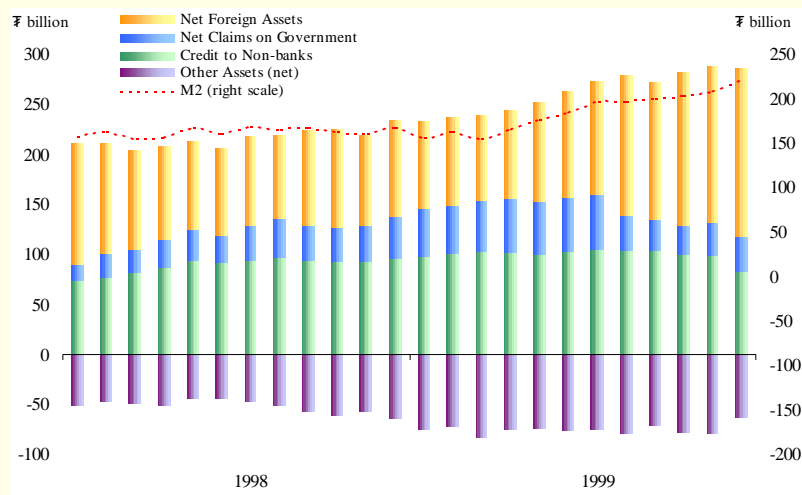


Figure 41. Interest rate

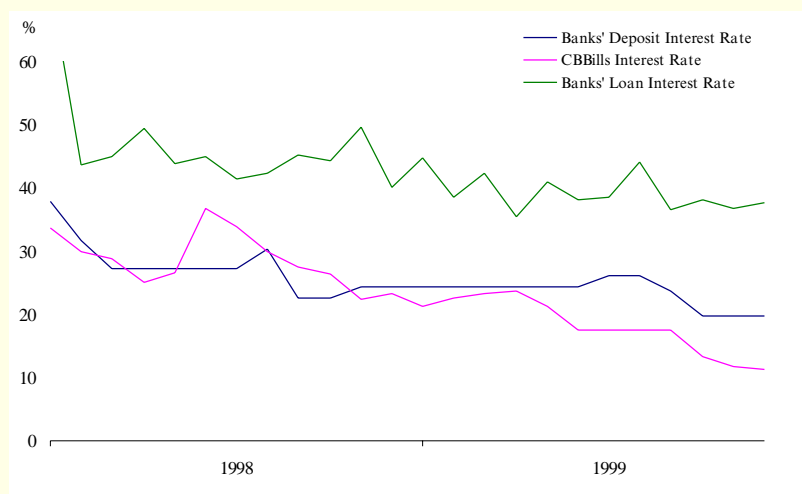
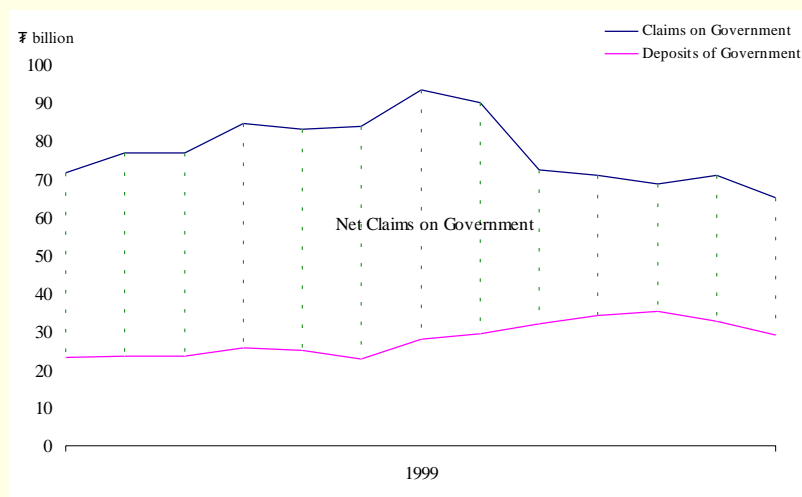


Figure 42. Net Claims on Government



and pensions in remote areas of the country, loans were extended to Agricultural (2 loans) and Reconstruction, Trade and Development, ITI and Erel banks (one each). By the end of the year the total outstanding balance of such loans was Togrog 3.1 billion. Pursuant to a loan agreement with a repurchase condition, loans totalling Togrog 10.4 billion were extended to the Savings Bank. As a result, the amount of secured loans extended to commercial banks rose by 17.8 percent over the 1998 amount.

By Resolution #180 of the Governor of the Bank of Mongolia, approved in 1997, it was ordered to establish the Central Bank's loan interest rate in relation to the CBB rate on an annual basis (CBB plus a certain percentage). Interest payable on loans to commercial banks was thus calculated based on the fluctuating CBB rate. Application of such procedure improved consistency between these monetary policy instruments. During the fiscal year interest of Togrog 591.3 million

was paid on secured loans extended by the Central Bank to commercial banks.

Starting in 1996 the interest rates on CBBs and on Central Bank loans have been established in relationship to each other, and such rates have been steadily declining. In the 1995-1997 period, the discrepancy between these rates was higher than during the 1997-1999 period. This discrepancy can be explained by the decrease in the CBB interest rate and features of the credit facilities extended as well as by the monetary policy pursued at such times.

Credits to Non-Banking Institutions

Despite the fact that Article 23.3 of the Law on Central Bank, enacted in 1996, provides that the Bank of Mongolia is prohibited from extending credits to non-banking institutions, the Central Bank retains in its accounts credits from such institutions, which credits



had been extended prior to the enactment of the law. The Bank of Mongolia continues to pursue collection of these loans. Collection efforts include the filing of legal actions in the courts of Mongolia, the negotiation and establishment of repayment schedules and the selling or transferring of certain of the credits to other parties. During the year, issues related to debt owed by Buligaar JSC and Gutal JSC were settled. As a result, claims on these two non-banking institutions were removed from the accounts of the Bank of Mongolia, leaving claims on four other institutions.

Total outstanding loans to non-banks carried on the accounts of the Central Bank decreased by 49 percent over the previous year as a result of the transfer of the Buligaar JSC credit. By agreement with the Ministry of Finance, the Central Bank assigned to the Government its commitment to repay the US\$ 5.5 million loan of Buligaar JSC which arose out of the loan guarantee issued to the Italian bank Monte dei Paschi di Siena.

In addition, Mongolian courts issued decisions with respect to claims on Gutal JSC (Togrog 143.2 million) and Makhimpex JSC (US\$ 500.0 thousand), as a result of which the debt owed by Gutal JSC was repaid. The Central Bank's claim against Agrotechimpex JSC in the amount of Togrog 184.5 million was submitted to court.

Net Credits to Government

During the year the Bank of Mongolia, in collaboration with the Ministry of Finance, targeted their activities at

reduction of the claims on the Government. As a result, by the end of the year the claims of the banking system on the Government totaled Togrog 63.5 billion and Government deposits reached Togrog 28.9 billion, resulting in net credits to the Government of Togrog 34.6 billion, Togrog 6.9 billion less than in 1998. Such decrease resulted from the reduction in credits to the Government by Togrog 1 billion and the expansion of Government deposits by Togrog 5.9 billion.

In addition, in order to conform to market principles, a regulation providing for the payment of interest on the outstanding balance of the Government's current account at the Central Bank was introduced, which also influenced the reduction in net credits to the Government.

During the year the purchase of Government securities by commercial banks increased by Togrog 2.3 billion and interest receivables on such securities was reduced by Togrog 1.3 billion. The balance of an earlier loan from the Bank of Mongolia to the Government in the amount of Togrog 2.8 billion was repaid, and debt owed by the Government to the Bank of Mongolia with respect to credits from the IMF was reduced by Togrog 4.7 billion. In addition Government deposits at commercial banks rose by Togrog 4.0 billion and at the Bank of Mongolia by Togrog 1.9 billion. The growth of Government deposits was related to expansion of funds in the current accounts of State organisations and social security and allowance funds. Togrog 26.1 billion in Government deposits were State budget funds, Togrog 2.1 billion were local budget funds, and Togrog 567.3

million were State organisation funds held outside the budget.

The Government and the Bank of Mongolia have undertaken successful measures aimed at solution of the debt that exists between these two organisations. In this regard, a repayment agreement to clarify the amount of debt and the liquidation of such debt by the year 2010 and a joint working group to agree upon the total debt outstanding were established.

During the 1 year loans totalling Togrog 16.0 billion were granted to and repaid by the Government. Due to insufficient collection of budget revenues, these loans became past due, but had been repaid by the end of year.

Government Securities

By the end of 1999, the banking system held Togrog 57.7 billion of Government securities, of which Togrog 19.6 billion were held by the Bank of Mongolia and Togrog 38.1 billion by commercial banks. Of these securities, Government bonds previously issued in connection with bank restructuring became non-performing. In addition, certain Government promissory notes held by the Bank of Mongolia do not bear interest, which is a violation of market principles.

The Bank of Mongolia holds a total of Togrog 19.6 billion of Government securities, of which Togrog 14.1

billion are Government bonds issued in connection with bank restructuring and Togrog 5.5 billion are Government promissory notes.

The Bank of Mongolia has the exclusive right to purchase at a discount and to partially redeem the Government's bank restructuring bonds. Since December 1996, the Bank of Mongolia has purchased Government bonds in a total amount of Togrog 40.3 billion, of which Togrog 26.2 billion have been redeemed, leaving an outstanding balance of Togrog 14.6 billion. It was agreed with the Ministry of Finance to fix the interest rate payable on such Government bonds at 0.4 percent per month, and in 1997-1999 a total of Togrog 1.8 billion of interest was paid.

Within the scope of the bank restructuring program, the Bank of Mongolia converted certain inherited and directed loans at the ITI and Agricultural Banks in the amount of Togrog 5.5 billion (ITI - Togrog 1.9 billion, Agricultural Bank - Togrog 3.6 billion) into Government promissory notes. However, neither the principal nor the interest on such notes has been paid. Past due interest owed by the Government on these notes has accrued over the past two years and now totals Togrog 2.4 billion.

2.2. FOREIGN EXCHANGE POLICY AND RESERVE MANAGEMENT

This year, increased emphasis was placed on the appropriate and safe allocation of foreign exchange reserves, on the stabilization of the nominal exchange rate of Togrog based on the movement of the real exchange rates of Togrog against related foreign currencies, on monitoring domestic interbank market operations and non-bank financial institutions, on acting as the financial intermediary of the Government, and on the expansion and further development of relations with international and foreign banking and financial institutions.

Reserve Management

As of December 31, 1999, net official foreign exchange reserves had reached US\$ 116.9 million, 46 percent higher than the previous year. This increased amount of

reserves is adequate to cover 14.3 weeks of the country's imports.

In such growth of the net official foreign exchange reserves, a significant contribution was made from gold trading, foreign exchange resources provided under program loans from the ADB and IMF, interest earnings on deposits placed with foreign banks, and earnings from international financial operations.

In order to succeed in gold trading, the Central Bank continued to observe and analyze the international foreign exchange and gold markets for precise judgment and proper planning based on anticipated market trends.

In 1999, the Bank of Mongolia purchased 10.9 tons of gold from domestic gold mining companies. Total revenue from gold sales reached US\$ 87.6 million. The Central Bank also earned US\$ 3.6 million in interest on foreign exchange deposits, US\$ 88.8 thousand on



gold deposits, and US\$ 64 thousand from gold dealing operations.

During the year, credit limits defined on the basis of assessment of counterpart credibility were strictly enforced in daily placement of foreign exchange reserves and trading transactions. To improve foreign exchange reserve management and trading operations and internal coordination among units and to diversify according to challenging market conditions, a new foreign exchange reserve management regulation was adopted.

To reduce risk exposure of the foreign exchange reserves and to take prompt and diligent actions in response to market movements and trends, a new modern real time system called Condor Plus was installed. The system links the internal audit of reserve management and back office with the trading desk to establish a monitoring network. The system also permits trading and supervision simultaneously. As an important tool for risk management and reduction of the risk exposure, the system increases the return on reserve assets.

High priority was given to diversification of domestic foreign exchange market trading and the creation of a legal framework within continuous policy to limit the direct intervention of the Central Bank in the market. To expand interbank market trading and to increase the involvement of non-bank financial institutions, a monthly ceiling on foreign exchange sold to domestic banks was imposed and new regulations on foreign exchange were introduced. It has to be pointed out that in 1999 the demand of foreign exchange in the market

was rather stable.

Nevertheless, it should be also noticed that electronic domestic interbank on-line market network for foreign exchange trading launched in 1998 based on equipment and channel provided by Reuters has failed due to scarce resources of the participating banks and the insolvency of a few of them. It caused severe problems in utilization of the network, which resulted in the non-payment of service fees and subsequent cancellation of the services. In order to find a suitable solution, detailed proposals on possible ways to use the network are being worked on with the involvement of the related organizations and participating banks.

Foreign Exchange Policy

In 1999, substantial effort was spent to implement a flexible exchange rate policy in connection with changes in foreign trade terms and conditions, to stabilize the exchange rate of Togrog against related foreign currencies, and to reduce the margin between mid-point rate of the domestic interbank market trade declared by the Bank of Mongolia and the “street” market rate. Throughout the year the margin between the two rates remained small reflecting the relatively stable Togrog exchange rate. Except for short-term rate fluctuations due to changes in demand and supply, the increase in the exchange rate was comparatively low. For the year, the Togrog depreciated by 18.9 percent against the US dollar. .

The real Togrog exchange rate, which represents its

Figure 43. Net International Reserves

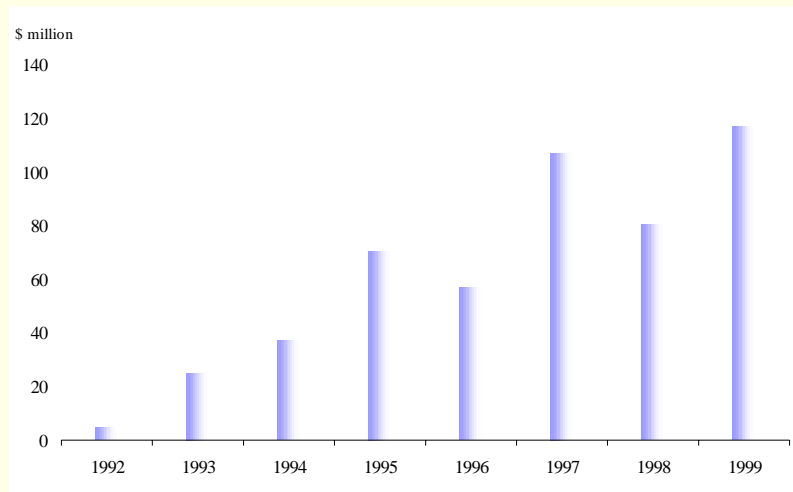


Figure 44. Togrog rate against US Dollar

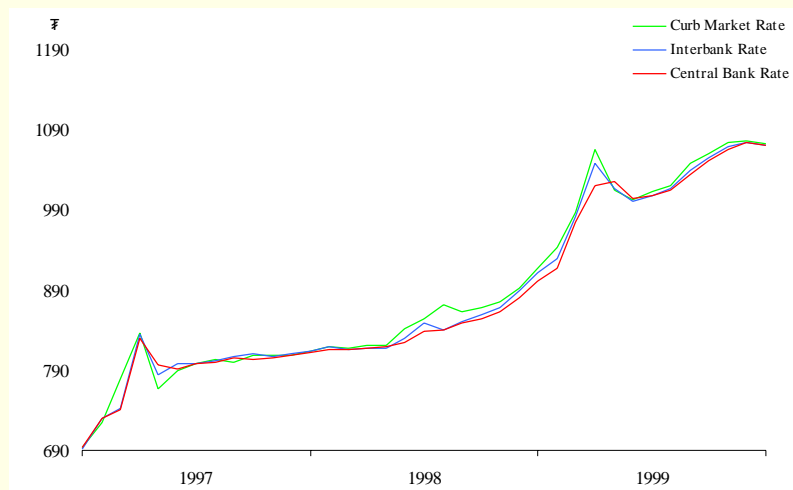
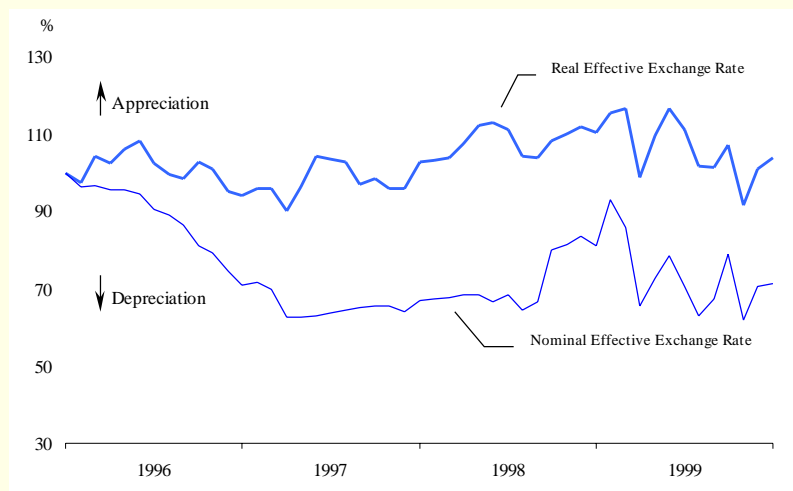


Figure 45. Real and Nominal Effective Exchange Rate



purchasing power, is calculated on a monthly basis using a method developed by the IMF that makes it possible to observe the factors influencing appreciation and depreciation of Togrog as reflected in exchange rate policy. In foreign trade, the shares of neighboring China and Russia were considerably higher than those of other trading partners. This resulted in the dominant influence of their economic and foreign trade conditions, and thus movement of their exchange rates affected the real exchange rate of the Togrog. In 1999, the real exchange rate of the Togrog to the US dollar remained stable.

Foreign Exchange Supervision

It has taken strict measures to enforce fulfillment of the Law on the Central Bank, the Law on Foreign Exchange Settlement, and Joint Orders 153/155 of 1995, 25/88 of 1999 of the Minister of Finance and the Governor of the Bank of Mongolia, and to maintain compliance of business entities, organizations and individuals with legal requirement to indicate prices of all goods and services as well as execute all payments within the territory of Mongolia in Togrog. Thus, in 1999 the Central Bank independently and jointly with concerned agencies initiated frequent investigations. Offenders were fined a total of Togrog 3.6 million, and in addition they were announced in the press to influence their business reputation. As a result, violations of laws and legal requirements have been reduced significantly.

In order to enhance foreign exchange asset and liability management of the banks and to enforce fulfillment of prudential ratios on foreign exchange risk exposure, a

new bank regulation on foreign exchange was introduced. Under this regulation, banks must determine their foreign exchange positions on a daily basis using a revised method allowing banks to show correctly their positions and accordingly, to properly monitor foreign exchange exposure.

The Central Bank conducts regular supervision of the banks' foreign payment and settlement operations. Licenses for foreign payment and settlement operations were withdrawn from the insolvent Export Import, Renovation, ITI and Reconstruction Banks. New licenses were granted to Credit and Transport Banks.

Acting as financial intermediary of the Government

As a result of successful preparatory and preliminary work to engage rating advisory and rating agency done in close cooperation with the Ministry of Finance, a sovereign debt rating for Mongolia was obtained in December 1999. Standard & Poor's evaluated the creditworthiness of Mongolia as a "B" in long term and as a "C" in short term. Sovereign debt rating obtained for the first time will encourage foreign direct investment. It will open the door to enter into international financial markets, and it will be the first step toward future issuance of sovereign debt securities.

In 1999, the Bank executed repayment of principal and interest in a total amount of US\$ 26.9 million for 68 loans borrowed under bilateral and multilateral agreements signed by the Government of Mongolia with

the ADB, WB, IMF, foreign governments, banking and financial institutions and utilized loans in a total amount of US\$ 103.7 million. As of the end of the year, total outstanding loans amounted to US\$ 797.8 million. We are pleased to note that loans received from Japanese Itochu Company for construction of the mini steel plant

in Darkhan and from Austria for wool processing factories were fully repaid. However, repayment of the loan received from Japanese Itochu Company was delayed one month past the maturity date due to shortage of the fiscal resources and repaid in the beginning of the reporting year.

2.3. BANKING SUPERVISION

The structure of the Supervision Department was changed to improve the banking supervision of the Bank of Mongolia and to bring it to international standards. One of the functions of the Banking Division was separated, and a new unit, which is responsible for determining the general supervision policy and regulation, was established. Actions to improve the skills and qualifications of supervisors are being taken. Banking supervision is now conducted through both on-site inspections and off-site surveillance.

The Bank of Mongolia has begun to inculcate international banking standards through the examination process based on the review and evaluation of risk such as asset quality, management capability, earnings quality, and performance of fiduciary obligations. Besides that, the supervision was directed toward making evaluations of banks' ability to determine, oversee and manage all types of risks in their activities. In 1999, the Bank of Mongolia conducted thirty-four on-site inspections of eighteen banks. When imposing penalties and taking enforcement measures, the Bank of Mongolia applied equal treatment in similar circumstances in the same way.

The Bank of Mongolia took the following enforcement measures against banks which are facing illiquidity and insolvency problems, and/or failed to meet prudential norms/ratios, and restrictions on banking activities such as limitation on insiders lending and loans to single borrowers:

- Issue written warnings,
- Pass an order requiring remedial action to be taken by a fixed date,
- Impose fines,
- Stop some activities of the bank,
- Impose a conservatorship,
- Appoint a receiver.

For instance, the Bank of Mongolia took the following actions: the Export Import Bank was prohibited lending activities, issuing guarantees of payments, and taking deposits. Innovation Bank was prohibited from lending, issuing guarantees of payments, taking new savings from individuals and conducting foreign exchange and transaction services. Also, the Bank of Mongolia revoked bank licenses from MM Invest, Bayanbogd, Ulaanbaatar, Asian Investment and Export Import Banks.

The ITI, Reconstruction and Agricultural Banks were unable to conduct their activities normally during a period of conservatorship. Therefore, the Bank of Mongolia appointed receivers at Agricultural, ITI and Reconstruction Banks on October 4, October 28, and November 1, respectively. Further, it was decided to liquidate ITI and Reconstruction Banks and to restructure Agricultural Bank.

Measures, such as closure and/or sale of unprofitable branches to other banks and reduction of staff were taken at Agricultural Bank within the restructuring framework. In addition, the Bank of Mongolia and Ministry of Finance agreed to cooperate on Agricultural Bank restructuring. Commercial banks are taking serious

actions against credit defaulters with the support of the Government, banks and legal institutions to collect non-performing loans.

By taking the above-mentioned measures, the Bank of Mongolia fully protected householders by paying them back deposits of Togrog 4.6 billion at three major banks with state ownership. These banks hold 13 percent of the total assets of the banking sector. Also some measures to protect other deposits are being taken. As a result, tension of the banking crisis was eased. In 1999, a total of Togrog 3.8 billion, or 0.4 percent of GDP was spent on bank restructuring.

Preventing from the future occurrence of insolvent banks was one of the main concerns of the Bank of Mongolia. Therefore, the Bank of Mongolia tightened the requirements for competitiveness of newly established banks, skills and qualifications of bank management and staff, and origins of capital funds; and reviewed

their implementation carefully. In 1999, the Bank of Mongolia issued licenses to Zoos, Anod and Ulaanbaatar City Banks.

The role of non-bank financial institutions (NBFIs) is increasing parallel to develop the financial sector and to improve its competitiveness. The Bank of Mongolia developed legal environment for NBFIs including accounting and supervision procedures. There is a tendency to grow this kind of institution, and in the reporting year, NBFIs such as Bayanbogd and the Golden Fund for Development (KHAS) were established and are conducting their activities within the established legal framework.

To improve bank management and efficiency of state-owned banks, the Bank of Mongolia prepared the General Privatization Strategy, which was approved by the Parliament.



Requirements to disclose and publish financial statements were incorporated into law in order to improve methods of internal and external bank audits, to create a mechanism by which bank management may be held accountable, to ensure certification of financial statements by external auditors and to provide reliable information to the public. These requirements are being implemented.

The Bank of Mongolia established the Accounting Board, which is responsible for issuing licenses to auditing companies to audit banks and overseeing their activities. In 1999, the Board issued licenses to five companies. The requirement to publish banks' financial statements certified by these audit firms has significant importance in selection of banks by customers based

on reliable information about their banks.

Currently, all existing banks are operating with their own internal control systems, and their main duties were directed to assess all risks and to take actions to reduce them.

Bank insolvency has been mainly caused by bad lending practices, including a lack of information about borrowers, and difficulties in assessment of their creditworthiness. Hence, the quality of loan portfolios deteriorated significantly. Therefore, the Credit Information Bureau was upgraded, and its legal framework was improved with the support and assistance of donor countries. Currently, upgrading of the software and operations of the Credit Information Bureau is

Table 9. Liquidity and Solvency of Banking System

	(In millions of Togrog)			
	1997	1998	1999	Difference
Total assets	196,279.8	179,483.9	181,765.8	2,281.9
Total liabilities	179,509.8	172,422.8	163,231.7	-9,191.1
Risk-weighted capital	15,202.2	1,668.0	18,534.0	16,866.0
Of which: Equity capital	13,089.2	16,489.1	12,940.3	-3,548.8
Retained earnings	-213.4	-14,422.5	-2,826.9	11,595.6
Risk-weighted assets	121,429.6	113,380.2	91,483.0	-21,897.2
Risk-weighted capital ratio (10%)	12.5	1.5	20.3	18.8
Excess capital (+), deficiency (-)	3,059.2	-9,670.0	9,385.7	19,055.7
Outstanding loans	50,375.1	88,566.9	49,340.3	-39,226.6
Of which: Non-performing loans	15,046.4	36,376.6	18,425.2	-17,951.4
Share of non-performing loans	29.9	41.1	37.3	-3.7
Loan loss provision				
Required	7,618.6	22,697.7	15,853.1	-6,844.6
Provided	6,768.2	18,446.6	15,314.0	-3,132.6
Excess (+), deficiency (-) of loan loss provision	-850.4	-4,251.1	-539.1	3,712.0
Liquid assets	73,714.5	56,618.7	91,591.3	34,972.6
Total liabilities	187,278.1	173,214.3	162,495.9	-10,718.4
Of which: Sight deposits	97,709.0	71,576.2	79,893.0	8,316.8
Savings and time deposits	58,696.9	59,308.7	70,692.9	11,384.2
Liquidity ratio (required 18%)	39.4	32.7	56.4	23.7
Excess liquid assets	40,004.4	25,440.1	62,342.0	36,901.9

Figure 46. Liquidity Ratio

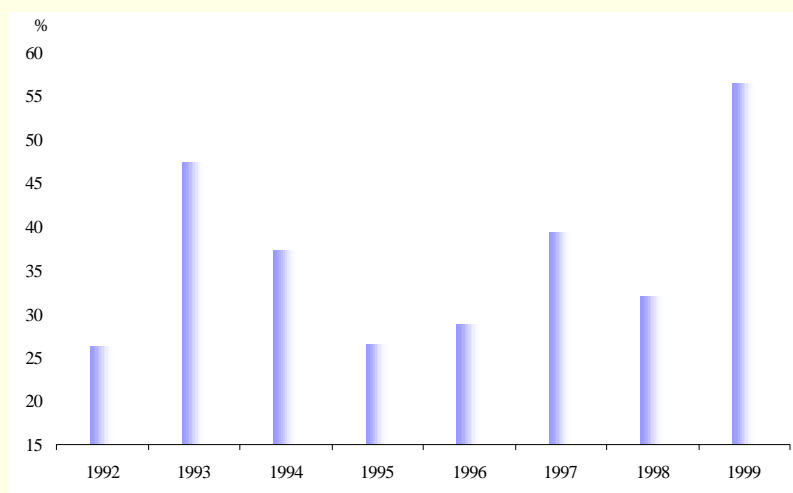
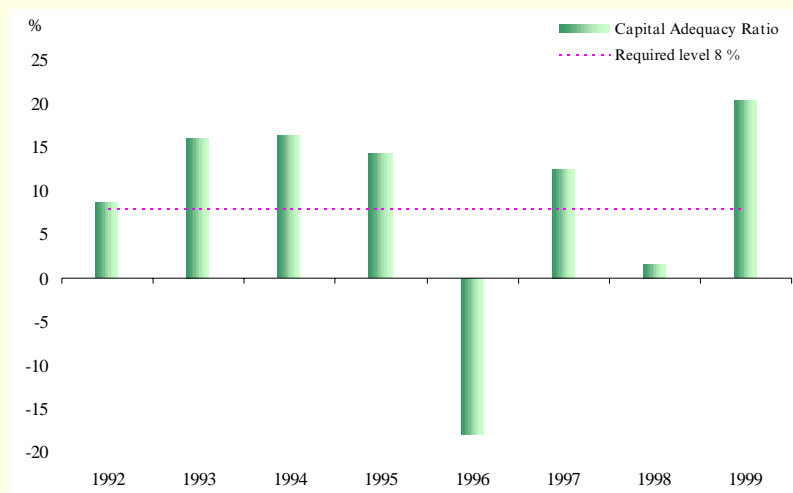


Figure 47. Capital Adequacy Ratio



continuing. As a result, credit risks of banks were reduced in a certain way, and banks were discouraged from new lending to credit defaulters. The Credit Information Bureau database has been enriched by information on 6,206 borrowers, with loans amounting to Togrog 16 billion, obtained from the Mongolian Asset Recovery Agency. As a result, the database contains information on 13,754 borrowers with loans exceeding Togrog 96 billion. In 1999, the Credit Information Bureau responded to over 200 inquiries about potential borrowers and is providing banks with information on credit defaulters and borrowers, who obtained loans from several banks.

As a result of the above-mentioned actions, credit defaulters with non-performing loans at banks and borrowers against whom enforcement measures have been taken were not able to obtain new loans. In order to ensure market discipline, the Credit Information Bureau is trying to affect the business reputation of credit defaulters by disclosing their names to the public.

The Bank of Mongolia closely cooperated with the Government and international financial institutions to solve the problems of the financial sector and its stabilization. As a result, Mongolia fully accepted the 25 Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision, and took measures to reach to full implementation of all of them.

These actions were intended to resolve short-term banking sector problems. Hence, there is a need to take

a complete set of measures toward to full stabilization, to preserve the current achievements, and to increase public confidence in the banking sector. The Bank of Mongolia prepared and discussed a medium and long-term development strategy for the financial sector together with international financial organizations, including measures to establish a deposit insurance system and to encourage financial organizations to introduce new financial products and services.

Successful implementation of this program will create conditions for a safe and sound financial sector; will improve the quality and efficiency of financial services; and will eliminate the differences in the development of the banking sector in the different regions. In other words, there will be equal access to banking services throughout the country. Development of financial intermediation will increase free capital in the economy; investing it into important sectors of the economy will further enhance development of our country.

Financial Position of the Banking Sector

In 1999, some major banks improved their asset and liability management. For instance, their illiquid assets were replaced by liquid earning assets such as short-term deposits with sound foreign banks and central bank bills. Therefore, the aggregate liquidity ratio of the banking system increased by 24 percent to 56 percent. As of the end of 1999, aggregate risk-weighted capital was Togrog 18 billion and risk-weighted assets were Togrog 92 billion resulting in a risk-weighted capital ratio (RWCR) of 20 percent, which is 18.8 percent

higher than last year. The year-end ratio is higher than the minimum capital requirement established by the Basel Committee on Banking Supervision by 10 percent, and it complies with the requirement set by the Bank of Mongolia.

The increase in the capital adequacy ratio resulted from the liquidation of the insolvent ITI and Reconstruction Banks, the increase in the minimum capital requirement to Togrog 1 billion, the ongoing recapitalization of Agricultural Bank, and improvement of profitability of some banks due to better management of their asset and liabilities. The year-end ratios of the most banks were higher than the minimum requirements of RWCR.

The aggregate accumulated loss was Togrog 2.8 billion; however, current year profit of banks was Togrog 2.5 billion. As of the end of 1999, the ratio of return on equity was 11.8 percent, and the ratio of return on assets was 1.4 percent.

The outstanding loans of operating banks amounted to Togrog 49.3 billion, which is equal to 27.1 percent of

the total assets of the banking system. Togrog 16.1 billion (37.3 percent) of total loans were non-performing. In 1999, the share of non-performing loans decreased by 4 percent.

From the beginning of the year 1999, the amount of non-performing loans increased, and reached to 61 percent in November. The percentage of non-performing loans dropped sharply in the subsequent months due to the revocation of bank licenses from the insolvent ITI and Reconstruction Banks with 96-100 percent non-performing loans, amounting to Togrog 20 billion and Togrog 8 billion, respectively.

In 1999, the reserve for loan losses was Togrog 15 billion, which is lower than the required amount by Togrog 0.5 billion. Despite a Togrog 3.1 billion decrease in the amount of loan loss provision, its share in the amount of total loans increased by 6 percent to 31 percent.

2.4. CURRENCY EMISSION, ACCOUNTING, AND INFORMATION TECHNOLOGY

Currency Emission

Currency in circulation increased by 31 percent from the previous year, reaching Togrog 91.6 billion and 183.5 million banknotes, which is 41.6 percent of money supply. Insufficient development of non-cash payment instruments and both expense increases and income decreases in cash at insolvent banks resulted in an increase in currency circulation. The amount and percentage of large notes were increased to meet the needs of commodity trading and other services. 10 000 Togrog notes were 50 percent of total banknotes in circulation, 5000 Togrog notes-23.2 percent, 1000 Togrog notes-8.4 percent, 500 Togrog notes-11.4 percent, and other small Togrog notes-7 percent. Special attention was focused on withdrawal from circulation and destruction of bad notes. This was done 21 times involving Togrog 11.6 billion or 38.7 million banknotes. In addition, Togrog 70.5 billion at 23.9 million banknotes of new notes were issued into circulation. The headquarters of The Bank of Mongolia made an additional supply of Togrog 65.4 billion in 11 deliveries, and at the branch level Togrog 7.3 billion was issued in 32 deliveries. Also, coins of 20, 50, 100, 200 Togrog were put into circulation at Togrog 65.4 million.

Accounting

A National Payment Council (NPC) was established in March, 1999 to strengthen the payment system, to mitigate payment risk and to advise for the direction that interbank settlement to be secure and intensive. The regulation for NPC was elaborated.

Due to revised regulations on clearing settlements between banks, effective April 1, 1999 inter-bank transfers may no longer be made between bank branches but must be directed through bank headquarters. This was important measure for banks to better control the overall cash flow and its realistic estimation, to observe the clearing delay and to cease granting credit without resources, which had led to bank liquidity problems.

Because of the implementation of this regulation, the total number of transactions through Bank of Mongolia branches decreased 4 times from the previous year. 633,000 inter-bank transactions and 25,500 inter-branch transactions were executed through the Bank of Mongolia network in 1999.

As part of the implementation of the revised regulations on inter-bank clearing settlement, the accounting software and aviso structure were updated. This improved the security of transactions and shortened the timing of the control over the transactions. The latest

Table 10. Pieces and amount of new banknote issued in circulation

	1994	1995	1996	1997	1998	1999
In million pieces	27.5	37.1	2.8	4.7	4.2	23.9
In millions of Togrog	12655.3	11758.5	23307.0	13314.5	11592.1	70548.1

new software for accounting network, SWIFT 4.0, was installed.

Several important actions were taken in 1999. The Bank of Mongolia and the Government signed an agreement for payment transactions. Secondly, with technical assistance under a World Bank project, the installation of a software program for timely and frequent information from the Treasury and for prompt transfer of payment orders through electronic network were completed.

Updated software for calculating Bank of Mongolia employee salaries (ORACLE 8) has reduced the technical preparatory work of the statements and collection of the related information.

Information Technology and Software Program

The current situation with fast speed of the information technology requires the frequent innovation of the

computers and software. In order to improve Bank of Mongolia accounting software, the operation system WINDOWS 3.1 was replaced by WINDOWS 95, the management system for database ORACLE 7.1.4.1 was replaced by ORACLE 8.0.5.0.0 and the software program for network NOVELL replaced by WINDOWS NT, and a new server was installed.

Currently, the headquarters of The Bank of Mongolia is connected with over 100 users through three different networks: the SWIFT system for international settlements, the Bank's accounting network, and an internal network. These networks all use a UTP cable and a high speed Hub, and connect using a Star network structure.

Users of the Bank's internal network are now able to use high-speed electronic mail and the Internet due to Direct-PC technology.

The international tender to purchase a modern banking



software was announced April 15, 1999. The software is to include a flexible accounting system, flexible management information systems, a reliable internal control system as well as a system to protect loss of information.

The tender document was received by 17 foreign and 14 domestic companies. Nine foreign and one domestic company responded. Of these, the Bank selected an Australian company, Financial Network Services Pty Ltd. and established an agreement with the company on a license for software. This company will begin to introduce the software at the Trade and Development bank February 1, 2000.

Year 2000 Problem

A working group was established by a resolution¹² of the Governor in January 5, 1999 to handle the issues related to the year 2000 problem. The working group focused its activity to solve the internal issues related to the year 2000 problem within the Bank of Mongolia, and to provide advice and assistance to the banking sector on the problem.

The Bank of Mongolia updated its software and replaced computers not meeting requirements. In addition, the Bank adopted a contingency plan. A test was provided

at every risk taking day, and errors were corrected promptly. Due to these measures, the Bank of Mongolia's local system made the transition to the year 2000 without problems.

Within the framework of this issue, a general understanding about the year 2000 problem was given to the banks, and the Bank advised them how to solve the issues through analysis of existing computer hardware and software. In addition, a package of documents was sent to banks, which included experiences and actions taken by other countries and guidelines for contingency plans. The banks sent their reports about their actions frequently and made the transition with success.

In addition to actions required to solve the year 2000 problem, the banks were also required to update the standard for aviso in inter-bank settlement. This issue was finalized November 1, 1999.

On the basis of the guidelines received from SWIFT Center the software was updated and the test was made with schedule in order to secure the network for international settlement.

2.5. MANAGEMENT AND ORGANIZATION

Personnel and Training

At the end of 1999, the Bank of Mongolia had nine departments, six divisions, one special sub-division, and 20 branches in the countryside. Total employees were 292, of which 198 work at the head office. All employees took tests to assess their professional knowledge. This was an important measure to determine current level of the average employee and to develop policy for staff selection as well as training. In addition, at branches in countryside structural changes were made in direction that small number of experienced staff would work there. Also, 23 new young staffs were selected on the basis of the staff policy.

In 1999, a number of the measures which were taken under the human resource management and staff training were increased from the previous year as well as more attention focused on improvement in professional skills and to select essential right topics for their training. 99 employees attended different training events organized by the Bank of Mongolia and other financial institutions such as the IMF, ADB and World Bank. The total expense was 84.3 million Togrog.

The main activities of the Bank Training Center were to develop the training program for banking and finance issues, to retrain bank staff and to provide information, to cooperate with international organizations and other training institutions, and to organize various discussions and lectures for the public. In 1999, the Bank Training

Center in cooperation with the State Property Committee, Association of Asian Confederation of Credit Unions, Japanese International Finance Center, and the Swedish Development Agency organized short term seminars, training for banking mathematics, internal audit, asset and liability management, management of credit risk, accounting, forex payment risks and non-cash payment instruments; these seminars involved 205 people from banks and other institutions. In 2000-2001 following the program on short-term training agreed with the Swedish Development Agency, 95 individuals from the banking sector will participate in training in Sweden.

Internal Audit, Risk Management

In 1999, on-site inspections were made to ensure all departments at the head office and countryside branches



were in compliance with legislation, to protect from possible risks and loss, to investigate and correct any irregularities, and to take prior actions and provide advice.

During the year, 54 full or partial inspections were conducted and Togrog 1.1 billion of irregularities related to 12 units were discovered. 26 notifications were issued for these irregularities, and 32 individuals received penalties totaling Togrog 540.0 thousand.

Besides scheduled work, some other inspections were conducted of receivership activity of the Agricultural, ITI, and Reconstruction Banks, at the Zuunharaa and Sukhbaatar branches of the Reconstruction Bank, and at the Hailaast Company.

The action plan and general principle for implementation of management and financing of the Bank of Mongolia budget was developed and estimated value of the product for all departments and divisions in the year 2000.

A handbook for inspectors of the Internal Audit department was adopted. In addition, Ernst & Young audited the financial statements of Bank of Mongolia for 1998.

The activity of the internal audit was directed to protect against possible risks, and to improve its supervisory system. The following risks may occur in Bank of Mongolia activities: credit, settlement, interest rate, liquidity, market and legal. The implementation of the 25 basic principals of the Basel Committee resulted in

decreasing the above risks. The control was taken for the security of the head office and branches.

Because of the Bank's responsibility for the state treasury, the inspection and organizational measures are needed to ensure the property of the state treasury is safe and complete. Also, the control system should be proper for cash transfer and its security related to currency issue and emission into circulation.

Transparency and Disclosure

In order to improve transparency of the Bank of Mongolia activity, which were conducted to implement the State Monetary Policy Guidelines and to ensure the stability of the financial system, the information release and disclosure was increased from previous year in terms of content, capacity and framework.

Information about price changes, exchange rates, foreign reserves and statistical data was frequently released to the public as well as more attention focused on realistic information about the restructuring process in banking system to be informed to the public.

The wide aspects of issues about financial and banking system were published for the public education. The type and form of the information increased. Direct meetings with the public by TV, radio and press conference proved to be very effective.

2.6. INTERNATIONAL COOPERATION

In 1999, we continued our close cooperation and relations with various international and financial organizations and also became a new member of some well-known organizations.

As the Governor of the Bank of Mongolia is also the Governor for Mongolia at the Asian Development Bank, he continues to be responsible for ensuring proper attention is paid channeling communications with the ADB and for regulating activities related to the preparation and coordination of loans and technical assistance from that institution.

The first Country Operational Strategy of the Asian Development Bank adopted for Mongolia for period of 1994-1999 focused on mid-term objectives to accelerate the process of transition from a centrally-planned to a market-oriented economy. Within the strategy, the ADB

has provided 19 loans amounting to US\$ 377.5 million and technical assistance amounting to US\$ 41.5 million for development of the energy sector, roads and transportation, communication, agriculture, banking and financial system, health, education, employment generation and housing.

In 1999, all preliminary work for signing two new project loans and a program loan was completed and drafts of agreements agreed. Surely, the ADB will finance a second Road Development Project and within the project the auto road from Nalaikh to Choir will be improved. The next is the Cadastral Survey and Land Registration Project that is designed to increase land tenure revenues, to support rural development, and to strengthen land registration and land management.

For the year, the ADB has formulated a new mid-term Country Operational Strategy focused on poverty reduction in Mongolia for the period of 2000-2005. The



Government discussed and approved the strategy in November 1999. The distinctive feature of the strategy is its overarching goal to maintain sustainable development aimed at poverty reduction with the strong commitment and active participation of the private sector. The starting point to achieve this goal will be enhancement of the governance that was agreed to be supported by the loan provided by the ADB. The ADB has agreed to provide US\$ 25 million for implementation of the Governance Reform Program. The main objective of the program is to support the process of reforms needed to develop a new system of public governance and management. To reach these goals will require building a more efficient and accountable public sector, improving its financial management, and making it performance-based and transparent.

During the year senior officials of the ADB consisting of eight members of the board of directors paid an official visit to Mongolia. The Governor of the Bank of Mongolia also attended the thirty-second Annual Meeting of the ADB. We are pleased to note that the Country Assistance Plan outlining projects and program loans for 2000-2002 was intensively discussed and agreed upon.

This past year was a year of active international contacts. Senior managers of the Bank of Mongolia participated

in a joint meeting of the IMF and World Bank, and met with the managers and representatives of international financial organizations.

The Bank of Mongolia joined the South East Asian Central Banks Union in May 1999 and took initiatives to familiarize member countries with Mongolia and the Bank of Mongolia. Several members of the Bank's staff had the opportunity to be trained at the workshops and seminars organized by the SEACEN Center. In September 1999, an agreement on mutual cooperation was signed with the Peoples Bank of China.

This year, the Bank signed an Agreement on gold refining with the South Korean Samsung Corporation and agreement on the purchase and sale banknotes with the Van Reijen firm from the United Kingdom. Moreover, gold and silver souvenir coins were issued jointly with the German firms of Mayers Mint, MDM and Liechtenstein Coin Invest.

Notably this year, Standard & Poor's began issuance of a sovereign debt rating for Mongolia which will help foreign investors to identify the creditworthiness of the country.

2.7. DEVELOPMENT OF BANKING LAWS AND ACTS

This year Parliament introduced a total of 95 amendments to banking related laws and legal acts. The amendments were made regarding regulating legal relationships related with speeding up court processes related to loan repayment and resolving claims; holding accountable entities that are deliberately not repaying bank loans; privatization of the banks with state participation; and restructuring of banks placed in Conservatorship and Receivership.

Banking Law

Amendments were made into the following articles, paragraphs and clauses of the Banking Law.

- Definition of the Banking Law objectives in Article 1 was refined by implementation of all types of enforcement measures specified in the Banking Law.
- The concept of related parties in Article 3 was further developed. It will include shareholders, the chairman and members of the representative governing board, the chief executive officer, bank branch and sub-branch managers, their grandparents, parents, spouses, siblings, children, and other legal entities the controlling share of which is owned by these individuals; individuals and legal entities to which such legal entities are affiliated.
- In Article 6, two separate licenses — a one to charter a new bank and the second one to run banking operations — were replaced by one license that will allow establishing a new bank as well as providing certain types of banking services. Introduction of this new regulation will provide flexibility not to give a license on deposit taking, lending and payment activities automatically along with a license to charter a new bank. This amendment will enable the Bank of Mongolia to limit a particular bank's activities if necessary and to issue licenses taking into account the specifics of a bank's activities and other factors.
- According to new provisions of Article 7, it is prohibited for bank management and employees to disclose information related to the bank's secrecy upon any legal entity's request due to reasons other than specified in the law.
- Article 31.6. was changed and now it reads that a Controller, responsible for monitoring a bank's operation and reporting to the Bank of Mongolia, may be appointed.
- New provisions were introduced into Article 36 to establish the legal basis for actions that may be taken by a Conservator such as developing a bank restructuring plan for approval by the Bank of Mongolia; increasing the statutory fund by an amount sufficient to cover capital deficiency; and selling the bank and its branches or restructuring the bank by other means.

- Under new provisions in Article 38, receivership measures will foresee two options: restructuring of the bank or its liquidation. A bank shall be liquidated if there is no feasible way to reduce its losses; however, restructuring is possible if it will result in satisfying claims more fully. The new provisions also establish the legal basis for carrying out measures such as injection of new capital and protection of depositor funds by charging statutory fund to losses as a part of receivership measures at insolvent banks unable to fully meet their financial obligations with their statutory fund.
- Introduction of more rigid measures to hold offenders accountable (Article 49) had a great impact on strengthening financial discipline.

Central Bank Law

In order to expand the scope of supervisors' examinations, verification of legal documents related to all banking activities is included on the same basis as other bank documents. This was accomplished by adding the concepts of citizen and legal entity to Article 25, Paragraph 1 the Law.

Other new provisions to the law provide the Bank of Mongolia authority to appoint a Controller to monitor a bank's daily operation and governance without placing the bank into Conservatorship.

Civil Code

In order to establish a legal basis for the prompt

resolution by the court of cases related to ownership title on guarantee and collateral assets prior to deterioration of those assets. such cases were included into category of a prompt order, Articles No. 136 and 160.1. The court is bound to process such cases within 14 days under the new regulations and also measures to guarantee an implementation of court decisions are required to be taken.

Criminal Law

A new article, Article 127.1, was introduced regarding cases of deliberate actions by borrowers to avoid repayment of bank loans causing significant losses. New provisions will provide criminal law measures for not repaying loan by engaging in loan fraud activities; escaping away; hiding income from using borrowed funds, guarantee and collateral assets; providing incorrect information; or transferring asset ownership to other parties.

Court Decision Enforcement Law

Because a bank's statutory fund is a guarantee for safety of deposits of individuals and organizations, it was included into a category of resources that may not be used to effect payments upon court decision. Two exceptions in this case would be investments using resources gained as a result of criminal activity or borrowing funds from other banks. In these two cases, investments into a bank's statutory fund will be reversed to compensate losses due to criminal deeds according to Article 26, Paragraph 1 and Clause 4.

State and Local Property Law

Changes were introduced into Articles 8, 9 and 33 of the law that privatization program to sell Government participation in state owned and state-joint stock banks and policy on valuation of state property shall be approved in co-ordination with the Bank of Mongolia.

Bank Privatization Guidelines

Bank Privatization Guidelines were approved by Parliament Resolution No. 54, dated July 22, 1999.

Bank privatization is an integrated part of economic reforms and its objective is to establish a banking system based on market principles, with stable and reliable operation capable of supporting growth of national economy by efficiently allocating free financial resources.

Bank privatization is a process of transferring Government shares in state owned and state-joint stock banks by selling them to private investors in compliance with these guidelines and other banking legal regulations.

2.8. CHRONOLOGY OF CENTRAL BANK POLICY AND MAIN POLICY MEASURES

Month	Day	Resolution ID	Name of Legal Act	Short Content of the Legal Act
1	15	23	Auditor Licensing	Grants Dalai Van-Audit HHK special one-year license for bank auditing effective January 1, 1999
	20	32	Auditor Licensing	Grants Naidvar-Audit HHK special one-year license for bank auditing effective January 1, 1999
	21	34	Regulation on Restructuring and Liquidation during Receivership	Regulatory action will be taken for bank insolvency or the circumstances specified in Article 38 of the Banking Law of Mongolia have occurred. This includes implementation of measures regarding bank management and its structure, including complete measures of structure, organization, and financial situation, improve financial solvency through re-capitalization from existing and newly entered shareholders without bank liquidation as a legal entity or implement bank liquidation and use or dispose asset of bank according to the legal provisions provided in related law.
	22	37	Measures at the Agricultural Bank	Due to financial deterioration, the shareholders of Agricultural Bank and its acting executive director are ordered to gradually increase the statutory fund.
	22	38	Measures at ITI Bank	Due to financial deterioration, the shareholders of ITI Bank and its executive director are ordered to gradually increase the statutory fund.
2	2	49	Regulation on Inter bank Clearing Settlement	Revises the regulation to increase efficiency and liquidity of inter-bank clearing settlement, and to better monitor and manage cash flow.
	8	62	Regulation on Credit Limits	Provides the imposition and monitoring of ceilings on the credit outstanding to companies, organizations and individuals at banks that do not comply with the requirements specified in Article 15 of the Banking Law.
	12	75	Conservatorship: Agricultural Bank.	Imposes Conservatorship on the Agricultural Bank effective February 12, 1999 for up to one year.
	26	93	Auditor Licensing	Grants Itgel-Audit HHK special one-year license for bank auditing.
3	4	108	Auditor Licensing	Grants Arthur Andersen Mongol Audit HHK special one-year license for bank auditing

	10	124	Instructions for Maintenance of Files on Banks and Non- Bank Financial Institutions	The instructions will be used for monitoring institutional development and maintaining complete documentary information in a systematic way including official documents, research materials, and legal documents on banks and non-bank financial institutions.
	24	139	Establishment of the National Board of Payment System (NBPS)	Establishes the NBPS and regulation of it. The Regulation directs operation of the NBPS, which is under the direction of the Governor of the Bank of Mongolia, to improve payment system, make national payment system efficient, reduce payment risk, and increase liquidity.
	24	141	The Bank of Mongolia Branch Charter	The Charter regulates The Bank of Mongolia branches, their operation scope, rights and obligations, and implementation.
4	1	152	Policy on Licensing and Monitoring Certain Banking Activities of NBFIs	Regulates issuance of licenses to NBFIs to provide certain types of banking activities, supervision of their activities, revocation of licenses and other related matters.
	7	164	Bank Licensing: Anod Bank	Grants banking license to shareholders of the Anod Bank
	20	186	Bank License Revoked	Revokes banking license of MM Invest Bank effective April 15, 1999.
	29	205	Handbook for Internal Auditors	The handbook is issued to improve auditor skills in the Internal Auditing Department of the Bank of Mongolia.
5	13	228	Licensing of the Zoos bank	Grants banking license to shareholders of Zoos Bank with restrictions on accepting individuals' saving deposits.
	17	231	Imposition of Conservatorship: ITI Bank.	Conservatorship imposed on ITI Bank according to the Banking Law of Mongolia.
	22	291	Policy on Management of Reserves	Regulates Central Bank activities regarding foreign reserve management including reserve holding, convertibility in the composition of gross reserves, buy/sell rules, dealers and trading office activities.
7	19	336	Foreign exchange license revoked: ITI Bank	Cancels ITI Bank's foreign exchange transaction license.
8	9	372	Policy on Registration and Permission for Changes in Statutory Funds of banks.	Directs implementation of supervision by the Bank of Mongolia on management activities when amount and composition of the bank's statutory fund is changed.
	10	376	Regulation on Imposition of Administrative Punishment by Supervisors of the Bank of Mongolia	Provisions of this Regulation will be applied to individuals who violate bank legal acts and the violation is not applicable to the Criminal Code to impose administrative punishment under the provisions of related laws (Annex 1).
	10	376	To approve format of State supervisors penalties, decisions,, indictment and statement.	Approved due to innovation of the Regulation of imposition of the Administrative Punishment (Annex 2).

	11	377	Policy on Licensing Foreign Exchange Transactions	Regulates foreign exchange licensing of banks to protect financial sector from probable foreign exchange exposure.
	31	411	Policy on Foreign Currency Positions	Determines methods and manner of foreign currency position, to stabilize inter-bank foreign currency market, to provide soundness of the banking sector, strengthen asset-liability management of banks, and limit foreign currency exposure risks.
9	7	425	Regulation on Bank by Bank Limits on amount of Foreign Exchange Transactions from Bank of Mongolia.	Sets limits on the size of foreign exchange trading and monitors activities related to this trading by the Bank of Mongolia.
	7	426	Bank License revoked: Bayanbogd Bank	According to the Law enforcement law (20/08/1998), banking license No. 5 granted on December 31 1992, to Bayanbogd Bank was revoked effective September 1, 1999.
	7	427	Bank License Revoked: Ulaanbaatar Bank	According to the Law enforcement law (20/08/1998), banking license No. 16 granted on April 16, 1998, to the Ulaanbaatar Bank was revoked effective September 1, 1999.
	7	428	Bank License Revoked: Asian Investment Bank	According to the Law enforcement law (20/08/1998), banking license No. 13 granted on June 4, 1997 to the Asian Investment Bank was revoked effective September 1, 1999.
	16	447	Licensing of the Golden Fund for Development HHK NBF.I.	Non-bank Financial Institution license granted to conduct lending service.
	29	467	Amendment to the Regulation on Credit Information Bureau.	The Regulation approved by the Bank of Mongolia Governor's Directive No. 384 dated December 26, 1996 is amended as following: Article 9 of Chapter 2 revised, Paragraph 2 of 1 amended, Paragraphs 91 of 2, 111, 112 of 3, 13 of 3, 171, 191, 192 of 4 are added, new Annex 7 added.
10	4	475	Receivership Measure: Agricultural Bank	Agricultural Bank was placed into Receivership on October 4, 1999 and conservatorship terminated on same day.
	19	507	The Rules of the Bank of Mongolia State Supervisors	Implement provisions stated in the law on Central Bank, the Banking Law and other related laws, to conduct supervision on banks, NBF.I's, and related parties as individuals, legal entities.
	26	519	Cancellation of Foreign Exchange Transaction License: Reconstruction Bank	Cancels Reconstruction Bank's foreign exchange transaction license effective November 1, 1999.
11	1	534	Receivership Measure: Reconstruction Bank	Reconstruction Bank was placed into Receivership on October 29, 1999 and conservatorship terminated on same day.

	1	541	Enforcement of Receivership Measure	Establishes Working Group to provide guidance to the Receivers and their team, monitor their activities and enforcement of receivership measures at the ITI Bank, Reconstruction Bank, and Agricultural Bank.
	15	575	Licensing of the Ulaanbaatar City Bank	Grants banking license to shareholders of the Ulaanbaatar City Bank.
12	15	626	Licensing of Bayanbogd HHK NBFIs.	Grants NBFIs license to Bayanbogd HHK to conduct lending service and foreign currency selling, buying trading transactions.
	15	627	Regulation for Exchange desk operation	Regulates activities of foreign currency exchange desks, NBFIs operating under Bank of Mongolia permission conducts only cash sell/buy trading.
	24	645	Amendment to the Regulation on Central Bank Bills	The word "7 days" amended to Paragraph 6 of Chapter 1, and the Chapter shall read as "the maturity of the Central Bank Bill shall be 7, 14, 30, and 91 days".
	24	646	Liquidation of ITI Bank	ITI Bank was liquidated due to its insolvency.
	24	647	Liquidation of Reconstruction Bank	Reconstruction Bank was liquidated due to its insolvency.
	27	650	Banking License Revoked: Export Import Bank	Banking license No. 16 granted January 25, 1995 to the Export Import bank was revoked due to its insolvency.
	29	659	Amendments to the Rules of Bank of Mongolia State Supervisors	Paragraphs 1b of 2, 2 of 3, 2 of 5, 1a and 1b of 7, 2 of 7 are excluded; 2 of 2 is revised.
	31	668	Policy on Licensing, Cancellation, and Monitoring of NBFIs	Regulates relations of licensing, cancellation of the license, and monitoring of NBFIs apart from banks, insurance companies, pension funds, saving and credit co-operatives, security companies.

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To the Governor of the Bank of Mongolia

We have audited the financial statements of the Bank of Mongolia.

Respective responsibilities of directors and auditors

The Bank's Board of Directors is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you.

Specifically, the financial statements of the Bank of Mongolia have been prepared to comply with International Accounting Standards, as applicable to central banks, modified as set out in note 2 of the financial statements. The Board of Directors is responsible for ensuring that these financial statements, on the basis set out in the financial statements, present fairly the state of affairs of the Bank as at 31 December 1999 and of the profit or loss for the year to that date.

The Board of Directors is responsible for ensuring that proper accounting records are kept, which disclose at any time the financial position of the Bank and enable the Board to ensure that the financial statements comply with the requirements set out in note 2 and note 3 thereto. The Board of Directors is also responsible for safeguarding the assets of the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, have been used in the preparation of the financial statements of the Bank. Applicable accounting standards have been followed in preparing the financial statements of the Bank insofar as they are appropriate to the basis of accounting set out in the notes to the financial statements.

Basis of opinion

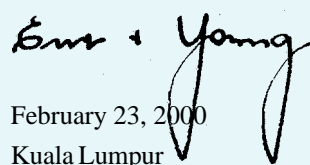
We conducted our audit in accordance with generally accepted auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud, other irregularities or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements, the basis of which is described in note 2 and note 3.

Opinion

The financial statements of the Bank of Mongolia have been prepared on the basis set out in note 2 and note 3 to comply with the requirements of applicable accounting standards insofar as they are appropriate to a central bank.

In our opinion, the financial statements present fairly, on the basis referred to above, the state of affairs of the Bank of Mongolia at 31 December 1999 and the profits or loss, total recognised gains and cash flows for the year then ended.


February 23, 2000
Kuala Lumpur

BANK OF MONGOLIA

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 MNT 'M	1998 MNT 'M
Interest and similar income	4	9,182	8,520
Interest expense and similar charges	5	(3,198)	(5,227)
Net interest income		5,984	3,293
Net gains from sales of precious metals		3,631	6,557
Net income / (loss) from foreign currencies operations		1,137	(1,120)
Other operating income		264	471
Other operating expenses	6	(447)	(926)
Total income		10,569	8,275
Movement in provisions	7	(7,663)	(23,541)
Administrative expenses	8	(1,448)	(1,337)
Exceptional item	9	216	-
Profit / (loss) for the year		1,674	(16,603)
Retained profits brought forward			
- as previously reported		-	2,605
- prior year adjustments		-	(2,350)
- as restated		-	255
Profit available for distribution / (loss) to be recouped by reserves		1,674	(16,348)
Transferred to general reserve		(1,252)	-
Transferred from gold revaluation reserve fund		-	7,678
Transferred from foreign currency revaluation fund		-	8,512
Transferred from fixed asset revaluation fund		-	158
Retained profit carried forward		422	-

The annexed notes form an integral part of these accounts.

BANK OF MONGOLIA**BALANCE SHEET AS AT 31 DECEMBER 1999**

ASSETS	Note	1999 MNT 'M	1998 MNT 'M
Cash on hand		22,076	12,385
Gold and precious metals	10	5,880	11,728
Investment in foreign securities	11	21,745	21,250
Deposits and placements with foreign financial institutions	12	232,953	143,813
Placements with, and advances to local financial institutions	13	3,980	5,500
Loans and advances to Ministry of Finance	14	13,696	22,422
Loans to companies	15	-	1,636
Other assets		2,700	5,221
Investment in companies	16	-	864
Fixed assets	17	2,290	2,175
TOTAL ASSETS		305,320	226,994
LIABILITIES AND SHAREHOLDERS' FUNDS			
Cash in circulation		110,287	71,514
Debt issued	18	21,200	11,715
Foreign currency liabilities	19	109,943	79,101
Deposits from Ministry of Finance	20	24,394	24,746
Deposits of local financial institutions	21	20,506	13,025
Other liabilities	22	3,485	19,941
TOTAL LIABILITIES		289,815	220,042
CHARTER FUND AND RESERVES			
Charter fund	23	1,000	1,000
Reserve fund	24	14,505	5,952
		15,505	6,952
FUNDS EMPLOYED		305,320	226,994

The annexed notes form an integral part of these accounts.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 MNT 'M	1998 MNT 'M
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (Loss) for the year	1,674	(16,603)
Adjustments for :-		
Realised gains net of losses from gold and foreign currency trading taken directly to reserve	2,430	6,904
Amortisation of premiums less accretion of discounts	(15)	(54)
Gain on disposal of investment	(216)	-
Foreign currency losses on disposal of investment taken directly to foreign exchange revaluation reserve	(2,051)	-
Depreciation of fixed assets	177	135
Provisions for bad and doubtful debts, net of recoveries	7,663	11,140
Operating profit before working capital changes	9,662	1,522
<i>(Increase) / Decrease in operating assets :-</i>		
Gold and precious metals	5,848	16,033
Investment in foreign securities	(495)	6,256
Deposits and placements with foreign financial institutions	(89,426)	(36,950)
Placements with, and advances to local financial institutions	1,520	(4,586)
Loans and advances to Ministry of Finance	8,726	(1,926)
Loans to companies	1,636	2,395
Other assets	2,521	(5,056)
<i>Increase/(Decrease) in operating liabilities :-</i>		
Cash in circulation	38,773	9,971
Debts issued	9,485	(7,581)
Foreign currency liabilities	30,842	1,657
Deposits from Ministry of Finance	(352)	10,875
Deposits of local financial institutions	2,804	496
Other liabilities	(16,456)	8,865
Net cash generated from operations	5,088	1,971
INVESTING ACTIVITIES		
Investment in a company	-	(800)
Purchase of fixed assets, net of disposals	(360)	(169)
Net cash utilised in investing activities	(360)	(969)
Net increase in cash and cash equivalents	4,728	1,002
Cash and cash equivalents brought forward	3,821	2,819
Cash and cash equivalents carried forward (Note 26)	8,549	3,821

The annexed notes form an integral part of these accounts.

BANK OF MONGOLIA

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

1. MAIN RESPONSIBILITIES

The Bank's main responsibilities are those that fall within the exclusive jurisdiction of a central bank.

The Bank of Mongolia formulates and conducts monetary policy with the aim of ensuring price stability. To this end, it takes measures aimed at regulating interest rate levels and fine-tuning bank liquidity by granting assistance to the banking system, by buying and selling securities, and by withdrawing liquidity from credit institutions.

The Bank of Mongolia regulates the relationships between the Mongolian Togrog and foreign currencies on behalf of the State. To this end, the Bank of Mongolia holds and manages the State's gold and foreign exchange reserves. In the course of these activities, the Bank enters into transactions with commercial banks and other central banks on the foreign currency denominated securities and deposit markets as well as on the spot and forward markets.

The Bank of Mongolia is the only body authorised to issue banknotes that are legal tender in Mongolia.

2. BASIS OF PREPARATION

The Bank's financial statements have been prepared so as to present fairly the state of affairs of the Bank, and its profits or loss, cash flows and total recognised gains or losses, and in accordance with applicable accounting standards insofar as they are appropriate to a central bank, with the limitations explained below.

As part of its central banking responsibilities, the Bank of Mongolia may undertake actions to maintain monetary and financial stability, and may act as a "lender of last resort" to financial institutions in difficulties in order to prevent a loss of confidence spreading through the financial system as a whole. In some cases confidence can best be sustained if the Bank's support is disclosed only when the conditions giving rise to potentially systemic disturbance have improved. Accordingly, although the financial effects of such operations will be included in the financial statements in the year in which they occur, these financial statements may not explicitly identify the existence of such support. However the existence of such support will be disclosed in the accounts when the need for secrecy or confidentiality has ceased.

As a result, the Bank's financial statements disclose less detail of the constituent elements of the profit and loss account, particularly of interest income and expense and any provisions for bad and doubtful debts, together with consequential restrictions in detailed disclosures in the balance sheet, cash flow statement and the notes to the financial statements that would be required under International Accounting Standards.

The financial statements have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets. The reporting currency used in the financial statements is the Mongolian Togrog, which is denoted by the symbol MNT, shown rounded to the nearest million.

The Bank of Mongolia constitutes a single business, all conducted in Mongolia. The Bank has no branches or operations abroad. Accordingly, no further analysis into business or geographical segments is appropriate in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Interest Income and Expense

Interest income and expense are recognised on an accruals basis.

The recognition of interest income is suspended when the probability of recoverability of either the principal or interest is ascertained as doubtful. In any case, interest is suspended when repayments are in arrears for 3 months. On commencement of suspension, previously accrued interest not received is claw-backed. Recognition of interest subsequent to suspension is on a cash basis. Interest recognition will resume on an accruals basis when the uncertainties surrounding the recoverability is removed, and when all arrears of interest and principal is received.

(b) Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Togrog at the rates of exchange ruling at the balance sheet date. It is the Bank's policy to revalue its monetary assets and liabilities denominated in foreign currencies at weekly intervals, and to take these translation adjustments directly to a reserve fund known as Foreign Exchange Revaluation Reserve.

The principal exchange rates used are:-

	1999	1998
US Dollar	1072.37	902.00
Special Drawing Rights (SDR)	1473.72	1,271.24

SDR represents the currency unit used for accounting by the International Monetary Fund.

Non-monetary assets and liabilities denominated in foreign currencies are stated at cost or revalued amount, being the Togrog equivalent of the foreign currency at the date of acquisition of the assets or incurrence of the liability, or on the date the asset or liability was revalued.

Income and expenditure are translated into Togrog at the exchange rates ruling at the date of transactions. Forward foreign currency contracts are recorded at contracted rates, and are not marked to market. This is not in accordance with international practice.

(c) Provision for Bad and Doubtful Debts

Provision for bad and doubtful debts is made as considered necessary having regard to both specific and general factors. In determining the need for provisions, management considers, among other things, the financial position of the borrowers, the value of any collateral and guarantees received, industry performance, current economic conditions and past experiences. Provision made (less amounts released) during the year is charged against the profit and loss account.

(d) Precious metals

Monetary gold is disclosed in the balance sheet at its revalued amount, a revaluation is performed at half yearly intervals. The revalued amount is determined by the Directors taking into consideration the market value of monetary gold and its trend, the strength of the Mongolian Togrog and its anticipated appreciation or depreciation of the currency, and the weighted-average cost of monetary gold. Translation gain or loss is taken directly to a reserve fund known as Gold Revaluation Reserve. Non monetary gold and other precious metals are shown in the balance sheet primarily at weighted average cost. Certain coins and other items of cultural and historical value were revalued in 1995 and are carried at revalued amount. Gains or losses from the sale of gold and precious metals are taken directly to income.

(e) Fixed Assets

The Bank's property, buildings and equipments are stated at cost, or at revalued amount, less accumulated depreciation.

During the previous financial year, the Bank transferred the balance in the revaluation reserve to the profit and loss account due its insignificance, and no longer intends to maintain this reserve.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, at the rates prescribed by the Government order 8 dated 12 January 1994.

The following are the annual rates used:-

	(Percentage)
Building	1.2
Computers	16.6
Furniture and equipment	8.0
Motor vehicles	12.5

(f) Taxation

In accordance with the Laws of Mongolia, the Bank is exempt from all forms of taxes.

4. INTEREST AND SIMILAR INCOME

	1999 MNT 'M	1998 MNT 'M
Deposits and placements with foreign financial institutions	5,655	5,174
Placements with, and advances to local financial institutions	1,360	2,650
Advances and loans to Ministry of Finance	2,167	696
	<u>9,182</u>	<u>8,520</u>

5. INTEREST EXPENSE AND SIMILAR CHARGES

	1999 MNT 'M	1998 MNT 'M
Loans from foreign financial institutions	29	253
Demand deposits of local financial institutions	847	720
Debt issued by Bank of Mongolia	2,322	4,254
	<u>3,198</u>	<u>5,227</u>

6. OTHER OPERATING EXPENSES

	1999 MNT 'M	1998 MNT 'M
Cost of banknotes	202	871
Others	245	55
	<u>447</u>	<u>926</u>

7. MOVEMENT IN PROVISIONS

	1999 MNT 'M	1998 MNT 'M
Provision charge for the year	17,633	23,541
Write back of provisions	(9,970)	-
	<u>7,663</u>	<u>23,541</u>

8. ADMINISTRATIVE EXPENSES

	1999 MNT 'M	1998 MNT 'M
Salaries and employee benefits	389	327
Telephone, posting and other communication expenses	392	327
Lighting and heating	139	131
Transportation and travelling	72	98
Security expenses	76	65
Depreciation	177	135
Others	203	254
	<u>1,448</u>	<u>1,337</u>

The average number of persons employed by the Bank during the year was made up as follows:

	1999	1998
Governor and Directors	14	18
Analysts	104	96
Technical / Others	80	62
Branches	94	137
	292	313

9. EXCEPTIONAL ITEM

On 10 December 1999, the Bank transferred all its interest and obligations in Buligaar JSC to the Ministry of Finance. The interest in Buligaar JSC consists of foreign currency loans, shares and bonds with carrying values totalling MNT 1.8 billion. The interest were transferred to the Ministry of Finance together with an allocation of MNT 39.6 million in the State Budget, resulting in a gain of MNT 216 million.

As a result of this transaction, foreign currency losses of MNT 2,051 million were realised and this was reflected as a movement in the foreign exchange revaluation reserve account (Note 24).

The obligation represents a guarantee issued to a foreign financial institution for the repayment of a long term loan taken by Buligaar JSC. This guarantee was provided for in prior years, and was transferred to the Ministry of Finance at its carrying value of MNT 12.1 billion.

10. GOLD AND PRECIOUS METALS

	1999 MNT 'M	1998 MNT 'M
Monetary gold	403	7,249
Non monetary gold	2,587	1,600
Coins and cultural valuables	2,570	2,569
Other precious metals	320	310
	5,880	11,728

The market value of monetary gold at year end is as follows:

	1999 MNT 'M	1998 MNT 'M
Monetary gold	448	8,188

11. INVESTMENT IN FOREIGN SECURITIES

	1999 MNT 'M	1998 MNT 'M
Investment in US Government securities	11,153	19,483
US Treasury bill	10,592	1,767
	21,745	21,250

Investment in US Government securities represents an undivided interest in a pooled investment fund managed by the Federal Reserve Bank of New York. The amounts so invested may be withdrawn on demand, and yield an effective interest rate of approximately 2.68%.

The US treasury bill, valued at USD 10,000,000 was purchased at a cost of USD 9,863,500, or approximately MNT 10.6 billion. The accretion of discount amounting to USD 13,500, or approximately MNT 14.5 million was taken to income, and adjusted against the cost of investment. The maturity date of the Treasury bill is in March 2000 and has an effective yield of approximately 5.59%.

12. DEPOSITS AND PLACEMENTS WITH FOREIGN FINANCIAL INSTITUTIONS

	1999 MNT 'M	1998 MNT 'M
Placements repayable on demand	1,104	1,390
Short-term time deposits	147,735	80,887
Allocation of SDR in International Monetary Fund	70,027	40,944
World Bank	1,585	1,558
Foreign currency aid	12,492	18,969
Others	10	65
	232,953	143,813

Short-term deposits with maturity periods up to 30 days, bear interest at annual rates ranging from 3.0% to 6.75%. Approximately 76% of such deposits are denominated in USD at an average interest rate of 6.4%.

SDRs are allocated to the Bank in proportion to its subscription to the International Monetary Fund. The amount allocated to the Bank is currently SDR 51.1 million, equivalent to MNT 70 billion (1998: SDR 37.1 million, MNT 41 billion). This amount is offset by a corresponding liability (see note 19) and is non-interest bearing.

13. PLACEMENT WITH, AND ADVANCES TO LOCAL FINANCIAL INSTITUTIONS

	1999 MNT 'M	1998 MNT 'M
Refinancing loans	1,772	2,137
Loans in local currency	4,398	466
Loans in foreign currency	3,480	3,028
	9,650	5,631
Less : Provision for bad and doubtful debts	(5,670)	(131)
	3,980	5,500

The refinancing loans and loans in local currencies were made to several local commercial banks, all of which are currently insolvent. A full provision of MNT 5,670 million have been made against these loans, taking into consideration the cash collateral of MNT 500 million, placed by one of these banks.

The foreign currency loan was disbursed to two local commercial banks, for the onward transmission to Mongolian enterprises. The funding came from the German Government and was to promote small and medium scale companies. One of these banks is currently insolvent, and measures are being taken to transfer the obligations of that bank to other financially stable banks. There are currently two commercial banks which have indicated their willingness to absorb these loans. With this arrangement the Bank's Board of Directors is of the opinion that no provision is deemed necessary.

The movement in provision for losses is as follows:-

	1999 MNT 'M	1998 MNT 'M
Balance 1 January	131	1,285
Net increase in provisions	5,539	-
Provisions written off	-	(1,154)
Balance at 31 December	5,670	131

14. LOANS AND ADVANCES TO MINISTRY OF FINANCE

	1999 MNT 'M	1998 MNT 'M
Securities issued by Ministry of Finance	19,612	19,612
Amount in dispute	-	10,816
Other receivables	6,120	2,833
	25,732	33,261
Less : Provision for potential unrecoverable amount	(12,036)	(10,839)
	13,696	22,422

Amount of MNT 19,612 million shown as securities issued by Ministry of Finance represent its obligations issued to two newly formed State-owned banks, which had taken over the liabilities of two commercial banks which became insolvent in December 1996. These securities are not marketable and were purchased to maintain liquidity of these new banks.

Interest on these securities is being serviced at an agreed at a rate of 4.8% per annum, however the maturity of these securities is still uncertain. The Bank's Board of Directors is of the opinion that the maturity period for these securities would likely be agreed at the medium to long term basis. Considering the surrounding uncertainties, a provision of MNT 9.8 billion have been made against these securities.

Other receivables are amounts which were previously disputed by the Ministry of Finance, which was substantially resolved in the current financial year when in December 1999, the Ministry of Finance agreed to settle these receivables, based on an agreed repayment schedule. Certain matters are however still being resolved, and the Bank's Board of Directors has decided to maintain a provision totalling MNT 2.2 billion against these receivables.

The movements in provision for losses is as follows:

	1999 MNT 'M	1998 MNT 'M
Balance 1 January	10,839	9,399
Net increase in provisions	1,197	1,440
Balance at 31 December	<u>12,036</u>	<u>10,839</u>

15. LOANS TO COMPANIES

	1999 MNT 'M	1998 MNT 'M
Loans in foreign currency	4,417	8,776
Other loans	184	184
	<u>4,601</u>	<u>8,960</u>
Less : Provision for bad and doubtful debts	(4,601)	(7,324)
	<u>-</u>	<u>1,636</u>

Prior to the regulation prohibiting the granting of loans to non financial institutions, the Bank granted loans to certain Mongolian enterprises for purposes of improving the Mongolian economy. These loans are now overdue, and full provisions have been made against these loans.

The movement in provision for losses is as follows:

	1999 MNT 'M	1998 MNT 'M
Balance 1 January	7,324	1,992
Increase in provisions	-	5,332
Provisions written-off	(2,723)	-
Balance at 31 December	<u>4,601</u>	<u>7,324</u>

16. INVESTMENT IN COMPANIES

	1999 MNT 'M	1998 MNT 'M
At cost	-	1,080
Less: provision for diminution in value	-	(216)
	<u>-</u>	<u>864</u>

Investment in companies represents the Bank's investment in Buligaar JSC, a company incorporated in Mongolia. During the current financial year, the Bank disposed off its entire interest in Buligaar JSC to the Ministry of Finance (refer to Note 9).

17. FIXED ASSETS

	Building MNT 'M	Others MNT 'M	Total MNT 'M
COST OR VALUATION			
At 1 January 1999	1,654	980	2,634
Addition	46	280	326
Disposals	-	(128)	(128)
At 31 December 1999	1,700	1,132	2,832
ACCUMULATED DEPRECIATION			
At 1 January 1999	123	336	459
Charge for the year	22	155	177
Disposals	-	(94)	(94)
At 31 December 1999	145	397	542
NET BOOK VALUE			
At 1 January 1999	1,531	644	2,175
At 31 December 1999	1,555	735	2,290

18. DEBT ISSUED

Debt issued represents short-term bonds issued by the Bank to local financial institutions. Such bonds have maturities of between one to four weeks, and bear interest at a range of between 10% to 22.5% per annum

19. FOREIGN CURRENCY LIABILITIES

	1999 MNT 'M	1998 MNT 'M
International Monetary Fund		
- Loans received under ESAF	38,273	36,551
- Securities issued in respect of SDR quota	70,027	40,944
The World Bank		
- Securities issued in respect of World Bank subscription	1,585	1,558
- Current account	58	48
	109,943	79,101

Loans received under the Enhanced Structural Adjustment Facility (ESAF) are granted by the International Monetary Fund for terms of up to 20 years and bear interest at 0.5% per annum. They are repayable in equal annual instalments over the last 10 years of the facility, the first of such repayments falling due for the Bank in 2003. They are denominated in SDR's.

Securities issued in respect of quota are offset by a corresponding asset (see note 12) and are non-interest bearing.

20. DEPOSITS FROM MINISTRY OF FINANCE

	1999 MNT 'M	1998 MNT 'M
Budget accounts	4,635	2,263
Funds received from World Bank and other international organisations	19,759	22,483
	24,394	24,746

Deposits from Ministry of Finance represent collections made by the Bank on its behalf. These are non-interest bearing and payable on demand. The Bank also acts as an agent of the Ministry of Finance in the disbursement of World Bank and Asian Development Bank funds.

21. DEPOSITS OF LOCAL FINANCIAL INSTITUTIONS

These deposits are in relation to current accounts maintained by local financial institutions and include obligatory reserves of commercial banks maintained with the Bank of Mongolia, calculated as a percentage of their eligible liabilities to deposit holders. A penalty is imposed on commercial banks should their depository reserve balance falls below the required amount. Interest is paid at a range of between 1.0% to 2.1% per month.

22. OTHER LIABILITIES

Included in other liabilities are foreign currency buy/sell swap contracts amounting to USD 2 million, valued at MNT 2,145 million at 31 December 1999. Its corresponding Togrog equivalent amounting to MNT 2,143 million is included in Other Assets. The difference is due to the revaluation of foreign currency assets and liabilities. The counterparties for these swap contracts are local financial institutions, with maturity periods of less than a month.

Also included here is a provision for social fund amounting to MNT 588 million. This fund is maintained for the welfare of employees and an amount of MNT 100 million is set aside yearly for this purpose.

23. CHARTER FUND

Charter fund represents the capital of the Bank. The entire capital comprising MNT 1 billion of Bank Stocks is owned by the State of Mongolia.

24. RESERVE FUNDS

	1999	1998
	MNT 'M	MNT 'M
Profit and loss	422	-
General reserve	2,002	750
Gold revaluation reserve	2,074	2,000
Foreign exchange revaluation reserve	10,007	3,202
Fixed assets revaluation reserve	-	-
	14,505	5,952
 (a) Profit and loss :-		
Balance at 1 January		
- as previously reported	-	2,605
- prior year adjustment	-	(2,350)
- as restated	-	255
Net increase / (decrease) for the year	1,674	(16,603)
	1,674	(16,348)
Transferred to general reserve	(1,252)	-
Transferred from gold revaluation reserve	-	7,678
Transferred from foreign currency revaluation reserve	-	8,512
Transferred from fixed asset revaluation reserve	-	158
Balance at 31 December	422	-
 (b) General reserve :-		
Balance at 1 January	750	642
Transferred from profit and loss	1,252	-
Transferred from foreign exchange revaluation reserve	-	108
Balance at 31 December	2,002	750
 (c) Gold revaluation reserve :-		
Balance at 1 January		
- as previously reported	2,000	2,191
- prior year adjustment	-	388
- as restated	2,000	2,579
Net increase for the year	74	7,099
	2,074	9,678
Transferred to profit and loss	-	(7,678)
Balance at 31 December	2,074	2,000

24. RESERVE FUNDS (CONTD.)

	1999 MNT 'M	1998 MNT 'M
(d) Foreign exchange revaluation reserve :-		
Balance at 1 January		
- as previously reported	3,202	-
- prior year adjustment	-	1,147
- as restated	3,202	1,147
Net increase for the year	6,805	10,675
	10,007	11,822
Transferred to profit and loss	-	(8,512)
Transferred to general reserve	-	(108)
	10,007	3,202
(e) Fixed asset revaluation reserve :-		
Balance at 1 January	-	158
Transferred to profit and loss	-	(158)
	-	-

The amount to be transferred to the general reserve fund is set annually by the Bank's management. The local regulations require the transfer to Reserve fund of not less than 40% of annual profit. Any surplus amounts not transferred to the Bank's internal funds are to be transferred to the State Budget.

Accordingly, the retained profit carried forward as at 31 December 1999 of MNT 422 million will be transferred to the Budget accounts of the Ministry of Finance in the following year.

The net increase in the foreign exchange revaluation reserve includes the realisation of the foreign currency losses of MNT 2,051 million arising from the transfer of Buligaar JSC disclosed in Note 9.

25. STATEMENT OF RECONCILIATION OF CHARTER AND RESERVE FUNDS

	1999 MNT 'M	1998 MNT 'M
Shareholder's funds at 1 January		
- as previously reported	6,952	6,596
- prior year adjustment	-	(815)
- as restated	6,952	5,781
Movement in profit and loss account	422	(255)
Movement in general reserve fund	1,252	108
Movement in gold revaluation reserve	74	(579)
Movement in foreign exchange revaluation reserve	6,805	2,055
Movement in fixed asset revaluation reserve	-	(158)
	15,505	6,952

26. NOTES TO CASH FLOW STATEMENT

	1999	1998
	MNT 'M	MNT 'M
(a) Analysis of changes in cash and cash equivalents		
At 1 January	3,821	2,819
Net cash inflow	4,728	1,002
At 31 December	<u>8,549</u>	<u>3,821</u>
(b) Analysis of cash and cash equivalents as shown in the balance sheet		
Cash and short term funds	22,076	12,385
Deposits and placements with foreign financial institutions - repayable on demand (note 12)	1,104	1,390
Deposits of local financial institutions - repayable on demand (note 21)	<u>(14,631)</u>	<u>(9,954)</u>
	<u>8,549</u>	<u>3,821</u>

27. COMMITMENTS AND CONTINGENCIES

Contingent liabilities, some of which have a legal right of setoff against corresponding third party obligations, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities given in connection with liquidity support operations, and forward foreign currency contracts and forward monetary gold contracts. Provisions are made for any estimated liabilities that may arise from these transactions.

	1999	1998
	MNT 'M	MNT 'M
Guarantees and other direct credit substitutes	2,049	15,388
Monetary gold swap contract	8,362	-
Forward foreign currency contracts	-	-
Forward monetary gold contracts	-	-
	<u>10,411</u>	<u>15,388</u>

Disclosed under guarantees and other direct credit substitutes are four promissory notes issued by the Mongolian Government to a third party and guaranteed by the Bank totalling USD 1.7 million or approximately MNT 1.8 billion. Due to delays on the project, the Mongolian Government have not settled the first promissory note due during the year of USD 410,400 or approximately MNT 440 million. The parties are discussing the matter and the Bank's Board of Directors is of the opinion that the Mongolian Government will settle their obligations and therefore there is no need to provide for this guarantee in the accounts.

The maturity period for forward foreign currency contracts generally ranges up to one month, and for forward monetary gold contracts, up to one year. While the Bank is active in the trading of forward contracts, as at 31

December 1999, there were no outstanding positions for forward foreign currency contracts and forward monetary gold contracts. All open positions as at 31 December 1999 have also been closed off, with the same counterpart and maturity dates.

During the year, the Bank entered into a long term monetary gold swap transaction valued at USD 8,208,000. The Bank is not expected to incur any material loss from this transaction.

28. CAPITAL COMMITMENTS

	1999	1998
	MNT 'M	MNT 'M
Capital expenditure approved by the Board and contracted for	-	145

29. POST BALANCE SHEET EVENTS

Subsequent to the year end, the rate of exchange of the Togrog to the US Dollar has changed to 1,093 Togrog to one US Dollar, as at 18 February 2000.

30. MONGOLIAN TRANSLATION

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.

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MONEY SUPPLY

in millions of togros

End-of-period	Currency issued in circulation		Of which			Money (M1)		Of which
	amount	Monthly changes %	Bank's cash	Currency outside banks		amount	monthly changes %	Non-banks demand deposits (BoM)
				amount	monthly changes %			
1990 12	742.7		5.7	737.0		4,749.9		3,915.9
1991 12	2,003.0		308.7	1,694.3		7,313.7		27.3
1992 12	2,896.4		1,057.2	1,839.2		7,640.2		11.2
1993 12	10,786.1	13.2	2,035.5	8,750.6	12.0	18,548.4	-8.8	40.6
1994 12	21,804.8	3.1	3,037.6	18,767.2	5.7	32,871.2	-0.4	
1995 12	29,755.7	0.8	4,164.5	25,591.2	2.6	42,636.5	-0.4	
1996 03	27,971.0	-8.0	4,621.9	23,349.1	-10.4	43,785.5	-9.6	
06	35,139.7	10.5	4,605.7	30,534.0	7.8	49,765.6	4.1	
09	39,518.5	4.4	5,720.1	33,798.4	0.1	58,269.3	3.3	
12	46,095.8	11.8	4,391.4	41,704.4	14.4	64,301.6	14.7	
1997 01	44,661.3	-3.1	8,004.4	36,656.9	-12.1	57,092.6	-11.2	
02	43,761.4	-2.0	8,270.5	35,490.9	-3.2	56,902.8	-0.3	
03	41,081.9	-6.1	8,172.4	32,909.5	-7.3	52,746.1	-7.3	
04	45,099.8	9.8	6,701.9	38,397.9	16.7	59,332.3	12.5	
05	48,831.2	8.3	5,589.9	43,241.3	12.6	64,492.6	8.7	
06	52,775.2	8.1	7,430.6	45,344.6	4.9	67,643.8	4.9	
07	57,256.8	8.5	7,325.4	49,931.4	10.1	75,383.2	11.4	
08	58,036.5	1.4	6,993.9	51,042.6	2.2	74,062.3	-1.8	
09	58,193.8	0.3	7,946.4	50,247.4	-1.6	75,696.5	2.2	
12	56,816.5	3.1	7,048.2	49,768.3	4.1	76,108.9	4.0	
1998 01	49,693.4	-12.5	5,747.2	43,946.2	-11.7	70,607.3	-7.2	
02	51,139.5	2.9	5,371.3	45,768.2	4.1	70,434.8	-0.2	
03	47,551.7	-7.0	6,050.8	41,500.9	-9.3	63,773.2	-9.5	
04	54,741.9	15.1	5,614.6	49,127.3	18.4	70,923.6	11.2	
05	60,076.3	9.7	4,669.7	55,406.6	12.8	79,683.5	12.4	
06	61,565.7	2.5	6,170.9	55,394.8	0.0	78,699.1	-1.2	
07	63,621.7	3.3	4,928.5	58,693.2	6.0	84,163.8	6.9	
08	61,704.7	-3.0	6,459.7	55,245.0	-5.9	80,065.8	-4.9	
09	59,996.1	-2.8	5,997.4	53,998.7	-2.3	79,175.0	-1.1	
10	58,020.1	-3.3	5,966.1	52,054.0	-3.6	76,766.6	-3.0	
11	58,407.5	0.7	6,736.9	51,670.6	-0.7	75,481.5	-1.7	
12	61,754.2	5.7	5,308.4	56,445.8	9.2	82,582.0	9.4	
1999 01	54,838.0	-11.2	4,816.2	50,021.9	-11.4	70,450.7	-14.7	
02	56,731.1	3.5	3,923.1	52,808.0	5.6	71,507.3	1.5	
03	52,625.8	-7.2	4,558.4	48,067.4	-9.0	66,289.8	-7.3	
04	65,379.1	24.2	3,217.1	62,162.1	29.3	78,332.4	18.2	
05	71,789.9	9.8	3,493.4	68,296.6	9.9	87,639.9	11.9	
06	78,453.6	9.3	4,645.8	73,807.8	8.1	92,599.9	5.7	
07	87,682.1	11.8	4,095.6	83,586.5	13.2	105,128.1	13.5	
08	84,759.9	-3.3	4,797.7	79,962.2	-4.3	101,932.6	-3.0	
09	82,990.7	-2.1	6,630.0	76,360.7	-4.5	100,454.2	-1.5	
10	77,299.7	-6.9	4,770.0	72,529.7	-5.0	96,522.2	-3.9	
11	80,449.6	4.1	4,716.7	75,732.9	4.4	99,974.7	3.6	
12	91,567.5	13.8	4,286.2	87,281.3	15.2	114,825.7	14.9	

continued

End-of-period	Quasi money		Of which				Money (M2)		
	Demand deposits (Banks)	amount	monthly changes %	Time saving deposits	Of		Foreign currency deposits	amount	monthly changes %
					Individuals	Enterprises			
1990 12	97.0	883.2		726.3	726.3	-	157.0	5,633.1	
1991 12	5,592.1	2,601.1		1,996.9	1,553.3	443.6	604.2	9,914.8	
1992 12	5,789.8	5,412.1		4,430.2	2,985.7	1,444.5	981.9	13,052.3	
1993 12	9,757.2	24,215.8	10.6	10,103.1	7,969.6	2,133.5	14,112.7	42,764.2	1.2
1994 12	14,104.0	43,905.8	-2.6	28,937.5	25,287.3	3,650.2	14,968.3	76,777.0	-1.7
1995 12	17,045.3	59,408.1	-4.7	38,529.1	36,602.7	1,926.4	20,879.0	102,044.6	-2.9
1996 03	20,436.4	58,237.1	-5.3	39,368.3	37,683.6	1,684.7	18,868.8	102,022.6	-7.2
06	19,231.6	56,979.9	2.4	38,496.6	36,992.7	1,503.9	18,483.3	106,745.5	3.2
09	24,470.9	56,971.5	-6.6	36,151.2	34,825.9	1,325.3	20,820.3	115,240.8	-1.9
12	22,597.2	64,093.7	-4.0	35,164.2	33,819.1	1,345.1	28,929.5	128,395.3	4.5
1997 01	20,435.7	59,537.6	-7.1	33,192.6	32,308.8	883.8	26,345.0	116,630.2	-9.2
02	21,411.9	58,066.2	-2.5	33,814.1	32,775.0	1,039.1	24,252.1	114,969.0	-1.4
03	19,836.6	61,762.1	6.4	32,802.4	31,763.6	1,038.8	28,959.7	114,508.2	-0.4
04	20,934.4	64,063.4	3.7	31,854.4	31,042.0	812.4	32,209.0	123,395.7	7.8
05	21,251.3	68,600.9	7.1	32,451.2	31,215.8	1,235.4	36,149.7	133,093.5	7.9
06	22,299.2	70,214.3	2.4	34,093.2	32,759.8	1,333.4	36,121.1	137,858.1	3.6
07	25,451.8	77,463.2	10.3	35,911.5	34,467.2	1,444.3	41,551.7	152,846.4	10.9
08	23,019.7	76,527.5	-1.2	37,449.6	36,010.8	1,438.8	39,077.9	150,589.8	-1.5
09	25,449.1	75,872.3	-0.9	39,569.8	37,864.4	1,705.4	36,302.5	151,568.8	0.7
12	26,340.6	93,956.6	13.0	44,673.8	42,892.7	1,781.1	49,282.8	170,065.5	8.8
1998 01	26,661.1	86,724.9	-7.7	45,400.3	43,407.3	1,993.0	41,324.6	157,332.2	-7.5
02	24,666.6	91,522.3	5.5	49,804.2	43,951.4	5,852.8	41,718.1	161,957.1	2.9
03	22,272.3	89,854.6	-1.8	49,870.4	43,718.6	6,151.8	39,984.2	153,627.8	-5.1
04	21,796.3	85,216.6	-5.2	46,242.2	43,234.5	3,007.7	38,974.4	156,140.2	1.6
05	24,276.9	86,814.1	1.9	46,426.4	43,056.2	3,370.2	40,387.7	166,497.6	6.6
06	23,304.3	81,527.3	-6.1	43,492.4	40,643.1	2,849.3	38,034.9	160,226.4	-3.8
07	25,470.6	84,364.7	3.5	42,639.2	39,912.8	2,726.4	41,725.5	168,528.5	5.2
08	24,820.8	85,153.0	0.9	42,003.4	39,439.1	2,564.3	43,149.6	165,218.8	-2.0
09	25,176.3	86,818.2	2.0	42,212.1	39,674.0	2,538.1	44,606.1	165,993.2	0.5
10	24,712.6	85,837.8	-1.1	43,306.7	40,591.2	2,715.5	42,531.1	162,604.4	-2.0
11	23,810.9	85,081.1	-0.9	44,102.5	41,382.3	2,720.2	40,978.6	160,562.6	-1.3
12	26,136.2	84,667.6	-0.5	44,840.1	42,044.5	2,795.6	39,827.5	167,249.6	4.2
1999 01	20,428.8	84,756.7	0.1	44,702.7	41,889.6	2,813.1	40,054.0	155,207.4	-7.2
02	18,699.4	90,409.3	6.7	44,622.9	42,317.8	2,305.1	45,786.4	161,916.6	4.3
03	18,222.4	87,392.9	-3.3	42,874.2	40,646.1	2,228.1	44,518.7	153,682.7	-5.1
04	16,170.3	87,222.7	-0.2	41,685.6	39,419.0	2,266.6	45,537.1	165,555.1	7.7
05	19,343.3	87,941.2	0.8	41,202.9	39,115.9	2,087.0	46,738.3	175,581.1	6.1
06	18,792.1	92,035.4	4.7	41,158.2	38,447.7	2,710.5	50,877.2	184,635.3	5.2
07	21,541.6	91,044.4	-1.1	42,330.4	39,410.6	2,919.8	48,714.0	196,172.5	6.2
08	21,970.4	94,925.4	4.3	41,909.5	40,486.1	1,423.4	53,015.9	196,858.0	0.3
09	24,093.5	98,485.8	3.8	44,071.8	41,877.7	2,194.1	54,414.0	198,940.0	1.1
10	23,992.5	106,494.0	8.1	44,754.0	41,743.6	3,010.4	61,740.0	203,016.2	2.0
11	24,241.8	107,072.2	0.5	43,190.2	41,675.5	1,514.7	63,882.0	207,046.9	2.0
12	27,544.4	105,341.3	-1.6	45,052.3	43,257.9	1,794.4	60,289.1	220,167.0	6.3

CONSUMER PRICE INDEX

in percent

End-of-period	Food stuffs	Of which				
		Meat	Milk, dairy products	Flour, bakery	Other	Soda, cigarettes
1991 01 16	100.0	100.0	100.0	100.0	100.0	100.0
1991 12	134.4	136.4	156.3	124.0	131.4	126.9
1992 12	755.4	468.3	884.2	978.4	828.9	800.1
1993 12	2,247.0	1,744.3	2,153.2	2,906.7	2,736.5	1,424.5
1994 12	3,565.3	2,723.1	3,658.8	4,147.5	4,681.4	1,855.4
				<i>1995.12=100</i>		
1995 12	58.7	18.4	5.1	17.2	4.9	4.5
1996 12	78.2	19.5	7.1	27.0	7.5	6.3
1997 01	80.0	19.7	7.2	28.2	7.5	6.2
02	84.6	23.2	7.7	28.6	7.3	6.4
03	85.3	22.6	8.6	28.2	7.5	6.7
04	95.5	30.1	9.4	28.0	7.9	6.6
05	103.0	36.0	9.5	28.1	8.0	6.5
06	107.0	39.3	8.1	28.8	8.0	6.5
07	104.6	36.6	7.4	28.9	8.8	6.6
08	91.1	28.8	7.4	28.0	8.6	6.8
09	86.5	25.4	8.0	28.1	8.6	6.9
10	86.0	23.8	8.9	28.0	8.6	6.9
11	86.6	21.7	9.1	28.2	8.8	7.9
12	87.0	21.2	9.6	28.1	8.7	7.8
1998 01	89.4	23.3	9.6	27.6	8.8	7.8
02	89.7	23.3	9.8	27.3	8.7	7.6
03	97.5	31.5	10.1	27.0	8.6	7.5
04	105.2	38.7	9.9	26.9	8.7	7.5
05	106.9	39.4	9.6	26.9	8.8	7.6
06	101.6	36.1	8.1	26.8	8.8	7.6
07	99.2	33.1	7.4	26.6	8.8	7.6
08	92.2	29.1	7.4	26.6	8.9	7.5
09	83.9	23.2	7.6	27.1	8.9	7.6
10	84.3	21.7	8.7	27.7	10.0	7.6
11	85.5	21.3	9.3	27.7	10.0	7.7
12	87.7	22.0	10.0	27.6	10.1	7.7
1999 01	87.4	21.1	10.0	27.4	10.0	8.1
02	92.8	25.8	10.0	27.1	9.9	8.1
03	95.6	27.3	10.2	27.0	10.3	8.3
04	102.8	33.2	10.8	26.8	10.3	8.3
05	107.3	37.6	10.5	27.0	10.3	8.3
06	107.2	39.3	8.5	27.0	10.3	8.3
07	103.9	35.3	7.6	27.0	10.3	8.3
08	97.4	29.3	8.0	28.2	10.3	8.4
09	91.3	25.2	8.6	28.0	10.5	8.4
10	89.6	23.1	9.3	27.9	10.5	8.4
11	92.3	22.6	9.7	28.7	10.6	8.5
12	95.5	25.0	10.0	28.8	10.6	8.5

continued

End-of-period	Clothes, shoes	Of which						Rent & Price of energy
		Fabric	Men's clothes	Women's clothes	Wear	Children's wear	Shoes	
1991 01 16	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991 12	192.4	148.4	174.5	229.3	173.5	100.0	236.1	115.5
1992 12	679.1	676.3	347.3	541.2	397.1	440.9	965.4	245.8
1993 12	1,304.3	1,161.6	650.4	896.4	743.6	1,404.4	1,782.9	1,068.3
1994 12	2,363.1	1,957.5	1,259.4	2,110.3	972.1	2,126.9	3,377.3	1,595.7
<i>1995.12=100</i>								
1995 12	10.3	0.4	1.5	3.4		1.0	4.0	10.4
1996 12	15.4	0.6	2.3	4.5		1.8	6.2	17.9
1997 01	15.3	0.6	2.3	4.5		1.9	6.0	18.3
02	15.3	0.6	2.2	4.4		1.8	6.2	18.2
03	15.7	0.6	2.3	4.5		1.9	6.3	18.6
04	16.1	0.7	2.3	4.7		2.0	6.4	18.6
05	16.5	0.7	2.4	4.8		2.0	6.7	19.8
06	17.0	0.7	2.5	4.9		2.0	6.9	23.7
07	16.7	0.7	2.5	5.0		2.0	6.5	23.6
08	16.8	0.7	2.5	5.1		2.0	6.5	23.7
09	17.2	0.7	2.6	5.2		2.0	6.7	24.4
10	18.4	0.7	2.7	5.6		2.2	7.1	26.1
11	19.0	0.7	2.8	5.9		2.3	7.2	26.8
12	20.6	0.7	2.9	6.5		2.3	8.2	27.0
1998 01	20.6	0.7	2.9	6.5		2.3	8.2	26.9
02	20.4	0.7	2.9	6.2		2.4	8.3	26.9
03	20.3	0.7	2.8	6.2		2.3	8.2	26.9
04	20.3	0.7	2.8	6.2		2.3	8.3	26.6
05	20.3	0.7	2.8	6.2		2.3	8.3	26.6
06	20.2	0.6	2.8	6.2		2.2	8.3	26.5
07	20.2	0.7	2.8	6.2		2.2	8.3	26.5
08	20.7	0.6	3.1	6.2		2.2	8.3	26.6
09	21.5	0.6	3.1	6.3		2.4	8.8	27.3
10	22.0	0.6	3.1	6.7		2.4	8.9	28.1
11	22.4	0.6	3.1	6.7		2.4	9.2	28.4
12	22.8	0.6	3.2	6.9		2.4	9.4	29.5
1999 01	22.8	0.6	3.2	6.8		2.4	9.4	29.3
02	22.8	0.6	3.2	6.8		2.4	9.4	30.6
03	22.6	0.6	3.0	6.7		2.3	9.5	31.7
04	22.6	0.6	3.0	6.7		2.3	9.6	31.8
05	22.8	0.6	3.0	6.7		2.3	9.7	31.6
06	22.8	0.6	3.0	6.7		2.3	9.7	31.6
07	22.8	0.6	3.0	6.7		2.3	9.8	31.6
08	22.9	0.6	3.0	6.8		2.4	9.8	31.6
09	23.0	0.6	3.0	6.8		2.4	9.8	32.1
10	23.4	0.6	3.0	6.9		2.4	10.0	32.2
11	23.7	0.6	3.1	7.1		2.4	10.0	32.2
12	23.9	0.6	3.1	7.1		2.4	10.2	32.1

continued

End-of-period	Housing good	Medicine	Transport & communication costs	Articles for cultural needs	Other goods & service	General CPI	Monthly changes %	Changes from the beginning of year	Annual changes
1991 01 16	100.0	100.0	100.0	100.0	100.0	100.0			
1991 12	209.6	100.0	137.3	277.3	152.3	152.7	5.1	52.7	
1992 12	795.8	196.7	535.3	581.0	430.2	649.8	11.0	325.5	
1993 12	2,087.2	1,933.9	1,673.3	2,154.8	1,483.8	1,838.7	2.5	183.0	
1994 12	3,247.2	1,933.9	3,221.1	4,427.9	2,904.7	3,057.8	2.1	66.3	
							<i>1995.12=100</i>		
1995 12	3.9	2.1	7.6	3.6	3.5	100.0	2.1	53.1	
1996 12	5.4	3.0	13.6	5.7	5.3	144.6	3.2	44.6	
1997 01	5.6	3.0	13.7	5.8	5.4	147.2	1.8	1.8	44.2
02	5.8	3.1	13.8	6.3	5.6	152.6	3.7	5.5	36.2
03	6.1	3.8	14.4	6.5	5.9	156.5	2.6	8.2	40.6
04	6.1	3.8	15.1	6.5	5.9	167.6	7.1	15.9	43.7
05	6.0	3.8	15.1	6.6	5.9	176.7	5.4	22.2	46.9
06	6.1	3.8	15.2	6.6	6.3	185.6	5.0	28.4	55.5
07	6.2	3.8	15.1	6.6	6.2	182.8	-1.5	26.4	54.1
08	6.2	3.8	15.1	7.1	6.0	169.8	-7.1	17.4	40.9
09	6.2	3.8	15.0	8.0	6.3	167.4	-1.4	15.8	24.1
10	6.7	3.8	15.0	8.1	6.1	170.2	1.7	17.7	23.8
11	6.8	3.8	15.0	8.2	6.4	172.7	1.5	19.4	23.0
12	6.6	3.8	15.0	8.2	6.4	174.2	0.9	20.5	20.5
1998 01	6.6	3.9	16.0	8.3	6.5	177.9	2.1	2.1	20.9
02	6.6	3.9	16.7	8.3	6.5	178.8	0.5	2.6	17.2
03	6.5	3.9	16.6	8.2	6.7	186.4	4.3	7.0	19.1
04	6.4	3.9	16.6	8.3	6.7	193.8	4.0	11.3	15.6
05	6.4	3.9	16.6	8.3	6.7	195.5	0.9	12.2	10.6
06	6.3	3.9	16.6	8.5	7.0	190.3	-2.7	9.2	2.5
07	6.1	3.9	16.6	8.5	7.1	187.9	-1.3	7.9	2.8
08	6.1	3.9	16.6	9.6	7.2	182.5	-2.9	4.8	7.5
09	6.1	3.9	17.7	9.7	7.4	177.0	-3.0	1.6	5.7
10	6.1	3.9	17.8	9.7	7.4	179.0	1.1	2.8	5.2
11	6.1	3.9	17.8	9.7	7.4	180.9	1.1	3.8	4.7
12	6.1	3.9	17.8	9.8	7.4	184.7	2.1	6.0	6.0
1999 01	6.2	3.9	18.3	9.8	7.5	184.8	0.1	0.1	3.9
02	6.2	3.9	18.3	9.8	7.5	191.5	3.6	3.7	7.1
03	6.2	3.9	19.2	9.8	7.5	194.6	1.6	5.4	4.4
04	6.1	3.9	19.2	9.8	7.6	201.9	3.8	9.3	4.2
05	6.1	3.9	19.2	9.9	7.6	206.5	2.2	11.8	5.6
06	6.1	3.9	19.2	10.1	7.6	206.6	0.1	11.9	8.6
07	6.1	4.6	19.2	10.2	7.6	204.2	-1.2	10.6	8.7
08	6.3	4.6	20.3	11.0	7.9	200.1	-2.0	8.3	9.6
09	6.3	4.6	19.9	11.3	7.9	194.4	-2.9	5.3	9.8
10	6.3	4.6	21.6	11.3	7.9	194.9	0.3	5.5	8.9
11	6.5	4.6	23.3	11.3	7.9	199.8	2.5	8.2	10.4
12	6.5	4.6	23.3	11.3	7.9	203.2	1.7	10.0	10.0

MONETARY SURVEY

in millions of togrogs

End-of-period	Net foreign assets	Domestic credit (net)	Of which						Total assets
			Central Government	Public enterprises	Private sector	Principal in arrears	Substandard doubtful, loss loans	Share & promissory note	
1991 12	495.4	10,971.2	-1,883.7	9,779.6	3,075.3		0.0	0.0	11,466.6
1992 12	-27.0	16,078.2	-3,051.7	12,204.2	6,925.7		0.0	0.0	16,051.2
1993 12	23,395.7	24,460.3	-7,143.4	21,744.4	9,859.3		0.0	0.0	47,856.0
1994 12	29,699.3	49,190.3	-3,773.1	12,193.3	40,638.0		0.0	124.3	78,889.6
1995 12	51,709.7	45,494.7	-17,227.8	10,883.3	51,653.5		0.0	124.3	97,204.4
1996 03	40,142.0	60,031.5	262.3	12,531.8	47,113.1		0.0	124.3	100,173.5
06	36,698.9	66,207.1	2,523.4	13,578.5	49,987.2		0.0	118.0	102,906.0
09	59,252.8	61,855.8	-4,541.9	14,020.6	52,259.1		0.0	118.0	121,108.6
12	73,733.6	90,240.4	19,920.3	14,520.3	22,851.9	8,057.8	24,890.1	0.0	163,974.0
1997 01	70,137.1	55,323.1	5,664.8	12,319.7	21,982.0	4,895.4	10,461.2	0.0	125,460.2
02	77,077.5	90,947.8	37,680.1	13,826.9	24,262.7	4,691.2	10,486.9	0.0	168,025.3
03	88,363.9	82,520.5	25,676.4	13,860.0	27,124.9	4,925.9	10,933.3	0.0	170,884.4
04	85,483.6	79,785.0	25,050.8	13,319.3	25,162.0	5,025.1	11,227.8	0.0	165,268.6
05	79,651.0	80,740.8	25,946.8	13,416.1	25,166.3	5,835.0	10,376.6	0.0	160,391.8
06	84,567.8	81,003.9	25,610.5	12,553.9	26,512.6	6,766.7	9,560.2	0.0	165,571.7
07	93,835.2	81,091.2	24,224.9	11,677.8	28,391.2	7,113.1	9,684.2	0.0	174,926.4
08	105,906.7	72,196.2	15,241.7	11,619.1	29,183.2	6,303.5	9,848.7	0.0	178,102.9
09	108,917.7	81,985.2	26,636.0	10,474.2	28,379.7	6,655.7	9,839.6	0.0	190,902.9
10	97,109.0	85,275.8	28,186.0	11,642.8	29,544.7	5,453.5	10,448.8	0.0	182,384.8
11	94,637.3	85,772.5	27,611.8	11,582.4	30,153.8	5,420.7	11,003.8	0.0	180,409.8
12	135,437.2	67,635.4	13,352.1	11,713.0	28,112.6	4,553.9	9,903.8	0.0	203,072.6
1998 01	121,646.9	88,844.1	14,969.7	13,453.5	43,857.9	6,165.7	10,397.3	0.0	210,491.0
02	110,373.1	99,915.2	23,331.7	12,626.8	46,914.1	6,409.6	10,633.0	0.0	210,288.3
03	100,154.8	103,568.4	22,688.3	15,556.6	47,325.0	6,928.1	11,070.4	0.0	203,723.2
04	94,100.8	114,181.5	27,835.6	17,480.4	51,149.7	6,483.3	11,232.5	0.0	208,282.3
05	88,765.8	123,167.3	29,819.9	17,457.2	53,145.7	6,918.5	15,826.0	0.0	211,933.1
06	87,552.0	117,653.2	26,921.2	17,183.4	50,749.4	6,921.8	15,877.4	0.0	205,205.2
07	89,813.9	127,294.1	34,439.0	17,855.8	49,771.3	8,670.2	16,557.8	0.0	217,108.0
08	83,784.5	134,536.4	38,880.5	20,481.3	49,549.8	8,406.1	17,218.7	0.0	218,320.9
09	95,872.2	127,632.8	34,556.6	20,969.0	47,328.1	7,009.9	17,769.2	0.0	223,505.0
10	98,389.4	126,379.7	34,668.0	18,954.3	47,741.9	7,366.3	17,649.2	0.0	224,769.1
11	90,924.4	128,265.3	36,158.1	18,675.9	47,908.9	7,534.9	17,987.5	0.0	219,189.7
12	96,557.5	136,062.0	41,460.0	18,295.6	43,667.5	6,051.9	26,587.0	0.0	232,619.5
1999 01	87,356.5	144,119.5	46,231.9	19,341.6	45,076.5	6,797.5	26,672.0	0.0	231,476.0
02	88,144.2	147,658.7	47,093.6	17,759.6	47,425.1	8,480.2	26,900.2	0.0	235,802.9
03	84,863.9	153,825.7	52,741.7	17,993.5	47,555.6	7,368.0	28,166.9	0.0	238,689.6
04	88,263.2	153,979.4	51,924.3	16,042.7	48,768.6	8,569.4	28,674.4	0.0	242,242.6
05	99,066.1	151,692.6	52,460.2	14,329.3	44,734.7	7,666.2	32,502.2	0.0	250,758.7
06	105,517.8	156,297.8	55,376.2	14,618.1	46,957.1	5,171.1	34,175.3	0.0	261,815.6
07	112,827.2	158,927.0	54,850.7	15,620.1	49,043.2	4,825.5	34,587.5	0.0	271,754.2
08	140,232.5	137,418.7	34,590.8	16,431.4	46,409.8	5,619.8	34,366.9	0.0	277,651.2
09	137,205.2	133,784.1	31,403.1	16,011.8	40,736.0	3,575.8	42,057.4	0.0	270,989.3
10	153,700.3	127,859.4	29,057.6	13,793.7	40,590.2	4,989.8	39,428.2	0.0	281,559.7
11	155,870.8	131,456.2	33,875.1	13,299.0	41,399.9	4,106.5	38,775.7	0.0	287,327.0
12	167,541.5	116,635.6	34,555.7	8,564.5	31,408.6	2,925.7	39,181.0	0.0	284,177.1

continued

End-of-period	Money	Quasi money	Long-term foreign liabilities	Other items (net)	Total liabilities
1991 12	7,313.7	2,601.2	1,981.7	-430.0	11,466.6
1992 12	7,640.2	5,412.1	3,809.5	-810.6	16,051.2
1993 12	18,548.4	24,215.8	9,094.4	-4,002.6	47,856.0
1994 12	32,871.2	43,905.8	7,452.1	-5,339.5	78,889.6
1995 12	42,636.5	59,408.2	14,176.2	-19,016.5	97,204.4
1996 03	43,785.5	58,237.2	15,622.4	-17,471.6	100,173.5
06	49,765.6	56,980.0	8,505.2	-12,344.8	102,906.0
09	58,269.3	56,971.5	9,606.8	-3,739.0	121,108.6
12	64,301.6	64,093.7	11,121.4	24,457.3	163,974.0
1997 01	57,092.6	59,537.6	11,121.4	-2,291.4	125,460.2
02	56,902.8	58,066.2	11,872.6	41,183.7	168,025.3
03	52,746.1	61,762.1	13,310.2	43,066.0	170,884.4
04	59,332.3	64,063.4	11,183.7	30,689.2	165,268.6
05	64,492.6	68,600.9	11,112.6	16,185.7	160,391.8
06	67,643.8	70,214.3	11,201.5	16,512.1	165,571.7
07	75,383.2	77,463.2	11,233.7	10,846.3	174,926.4
08	74,062.3	76,527.5	11,297.4	16,215.7	178,102.9
09	75,696.5	75,872.3	11,289.5	28,044.6	190,902.9
10	75,950.4	79,800.6	6,477.4	20,156.4	182,384.8
11	73,209.6	83,136.3	4,480.7	19,583.2	180,409.8
12	76,108.9	93,956.6	3,659.2	29,347.9	203,072.6
1998 01	70,607.3	86,724.9	12,652.5	40,506.3	210,491.0
02	70,434.8	91,522.3	12,359.0	35,972.2	210,288.3
03	63,773.2	89,854.6	13,703.7	36,391.7	203,723.2
04	70,923.6	85,216.6	12,666.6	39,475.5	208,282.3
05	79,683.5	86,814.1	12,836.3	32,599.2	211,933.1
06	78,699.1	81,527.3	12,414.7	32,564.1	205,205.2
07	84,163.8	84,364.7	12,529.8	36,049.7	217,108.0
08	80,065.8	85,153.0	12,604.4	40,497.7	218,320.9
09	79,175.0	86,818.2	12,963.0	44,548.8	223,505.0
10	76,766.6	85,837.8	13,184.6	48,980.1	224,769.1
11	75,481.5	85,081.1	13,142.4	45,484.7	219,189.7
12	82,582.0	84,667.6	12,800.4	52,569.5	232,619.5
1999 01	70,450.7	84,756.7	13,291.2	62,977.5	231,476.0
02	71,507.4	90,409.2	13,407.8	60,478.5	235,802.9
03	66,289.8	87,392.9	13,418.4	71,588.4	238,689.6
04	78,332.4	87,222.7	13,025.6	63,662.0	242,242.6
05	87,639.9	87,941.2	14,468.3	60,709.4	250,758.7
06	92,599.9	92,035.4	14,017.3	63,163.0	261,815.6
07	105,128.1	91,044.4	14,140.8	61,440.9	271,754.2
08	101,932.6	94,925.4	14,349.0	66,444.2	277,651.2
09	100,454.2	98,485.8	14,062.3	57,987.0	270,989.3
10	96,522.2	106,494.0	14,187.1	64,356.4	281,559.7
11	99,974.7	107,072.2	13,603.6	66,676.5	287,327.0
12	114,825.7	105,341.3	5,682.5	58,327.5	284,177.1

DEPOSIT INTEREST RATE

in percent

End-of-period	Deposit rates							
	Current account		Current deposit accounts	Time deposit accounts				
	Domestic currency	Foreign currency		Domestic currency				Foreign currency
				1 year	1-3 years	3-5 years	More than 5	
1993 12	2.0		24-100	70-153	125-151.8		10-72	
1994 12	2.0		10-63.8	50-101.2			6-72	
1995 12	2.0		12.0-42.6	12.5-101.2			6.0-42.6	
1996 03	2.0		12.0-42.6	12.5-79.5			6.0-42.6	
06	2.0		12.7-42.6	12.7-79.5	26.8		6.2-42.6	
09	2.0		12.7-42.6	12.7-60.1	26.8		6.0-60.1	
12	2.0		12.0-34.5	12.7-60.1	26.8		3.6-42.6	
1997 01	2.0		12.0-36.0	6.2-69.6	41.4		3.6-26.8	
02	2.0		12.0-36.0	6.2-69.6	41.4		3.6-34.5	
03	2.0		12.0-34.5	12.0-51.1	39.3		3.6-42.6	
04	2.0		12.0-36.0	6.2-51.1	41.4		3.7-42.6	
05	2.0		12.0-26.8	12.7-51.1	36.0		3.7-42.6	
06	2.0		12.0-36.0	12.7-69.6	36.0-46.8		3.7-42.6	
09	2.0		6.2-26.8	6.2-69.6	36.0-42.6		3.7-42.6	
10	2.0		6.0-34.5	6.2-69.6	24.0-42.6		2.4-42.6	
11	2.0		3.6-34.5	6.2-69.6	36.0-42.6		2.4-42.6	
12	2.0		3.6-34.5	6.2-69.6	36.0-42.6		2.4-42.6	
1998 01	2.0		3.6-30.0	6.2-69.6	36.0-42.6		2.4-42.6	
02	0.8-9.0	1.0-1.2	3.6-30.0	12.0-51.1	24.0		2.4-26.8	
03	0.8-9.0	1.0-3.7	3.6-26.8	12.0-42.6	24.0		1.2-26.8	
04	0.8-9.0	1.0-3.7	3.6-19.6	12.0-42.6	24.0		2.4-26.8	
05	0.8-9.0	1.0-3.7	3.6-19.6	12.0-42.6	24.0		1.2-26.8	
06	3.0-9.0	1.0-3.7	3.6-19.6	12.0-42.6	18.0-24.0		1.2-26.8	
07	3.0-9.0	1.0-3.6	3.6-19.6	12.0-42.6	18.0-24.0		1.2-24.0	
08	0.8-6.0	1.0-3.6	3.6-19.6	18.0-42.6	18.0-30.0		1.2-24.0	
09	0.8-6.0	1.0-3.6	3.6-19.6	6.0-39.3	12.0-30.0		1.2-24.0	
10	0.8-6.0	1.0-3.6	3.6-19.6	6.0-39.3	24.0-30.0		1.2-24.0	
11	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0		1.2-24.0	
12	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0		1.2-24.0	
1999 01	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0		1.2-24.0	
02	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0		1.2-24.0	
03	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0		1.2-24.0	
04	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0		1.2-24.0	
05	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0		1.2-24.0	
06	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0		1.2-24.0	
07	0.8-6.0	1.0-3.6	3.6-19.6	9.6-42.58	24.0-30.0		1.2-24.0	
08	3.0-6.0	1.0-3.6	3.6-19.6	9.6-42.58	24.0-30.0		1.2-24.0	
09	3.0-6.0	1.0-3.6	3.6-19.6	4.8-42.58	24.0-30.0		1.8-24.0	
10	3.0-6.0	1.0-3.6	3.0-18.0	9.6-30.0			3.6-14.4	
11	3.0-6.0	1.0-3.6	3.0-14.4	9.6-30.0			3.6-14.4	
12	3.0-6.0	1.0-3.6	3.0-13.2	9.6-30.0			3.6-14.4	

LOAN INTEREST RATE

in percent

End-of-period	Loan rates				
	Bank of Mongolia	Commercial loans			
		Short-term		Medium & long-term	
	Domestic currency	Foreign currency	1-3 years	3-5 years	more than 5
1993 12	120-300				
1994 12	72-264				
1995 12	72-150				
1996 03	72-108				
06	72-109				
09	72-109				
12	72-109				
1997 01	66-108				
02	66.0				
03	48.0-66.0				
04	48.0-66.0				
05	48.0-66.0				
06	48.0-66.0				
09	48.0-66.0				
10	48.0-66.0				
11	45.0-50.0				
12	45.0-50.0				
1998 01	30.0				
02	30.0	47.7	39.5		
03	27.5	47.6	42.1		
04	25.0	49.7	49.1		
05	25.0	49.3	38.2		
06	37.5	47.8	41.9		
07	33.8	48.4	34.2		
08	30.0	47.9	36.8		
09	27.5	47.4	42.9		
10	26.3	46.9	41.8		
11	22.5	50.6	48.7		
12	23.3	45.8	34.2		
1999 01	21.2	49.9	39.5		
02	17.5	42.6	34.6		
03	23.3	47.2	37.2		
04	23.7	44.6	26.4		
05	21.2	47.6	34.2		
06	17.5	42.2	34.1		
07	17.5	42.6	34.4		
08	17.5	46.9	41.2		
09	17.5	42.4	30.6		
10	13.3	44.2	31.8		
11	11.6	39.1	34.4		
12	11.4	38.8	36.5		

MARKET RATES

Togrog exchange rate against foreign currencies

End-of-period	USD		EUR	DEM	ITL	FRF	ATS	BEF	ECU	JPY	CHF	GBP	HKD
	end of period	monthly average											
1993 12	396.51	395.03		233.10	0.23	68.39	33.13		349.19	3.55	275.01	592.70	51.32
1994 12	414.09	413.00		262.35	0.25	76.02	37.28		498.77	4.12	310.99	639.77	53.51
1995 12	473.62	473.48		329.93	0.30	96.22	46.60		604.81	4.63	409.53	731.27	61.23
1996 03	489.15	486.53		331.51	0.31	97.14	47.14		614.89	4.60	411.36	746.08	63.25
06	531.15	524.86		347.85	0.35	102.84	49.43		658.81	4.85	422.45	818.29	68.60
09	601.70	586.51		396.86	0.40	117.23	56.41		754.53	5.47	485.63	935.97	77.81
12	693.51	692.76		445.82	0.45	132.37	63.37		860.82	5.98	514.28	1172.48	89.64
1997 01	730.19	711.24		446.38	0.46	132.45	63.74		866.37	6.13	517.13	1187.29	94.33
02	740.35	731.79		440.23	0.44	130.47	62.55		851.96	6.03	505.36	1201.07	95.60
03	830.00	801.39		495.52	0.49	146.75	70.26		960.93	6.70	572.14	1357.47	107.11
04	796.76	818.36		461.15	0.46	136.48	65.62		898.15	6.31	542.38	1293.54	102.84
05	791.70	785.64		467.49	0.47	138.69	66.50		911.25	6.85	564.09	1294.83	102.29
06	797.99	796.79		458.75	0.47	135.99	65.19		899.81	6.96	548.26	1327.06	102.97
07	800.32	799.07		435.43	0.45	129.25	61.87		861.62	6.85	527.92	1330.13	103.40
08	804.86	803.65		442.35	0.45	131.44	62.89		844.18	6.81	537.47	1293.41	103.92
09	804.30	803.85		458.29	0.47	136.05	64.94		895.79	6.63	562.62	1291.71	103.94
10	806.00	804.96		454.66	0.47	135.74	65.13		895.26	6.67	546.53	1303.91	104.14
11	809.31	808.05		459.88	0.47	138.53	65.91		919.82	6.45	570.30	1366.76	104.69
12	813.16	811.95		457.23	0.47	136.64	65.25		904.88	6.28	565.93	1358.14	104.93
1998 01	816.61	815.20		455.25	0.46	181.08	64.73		897.17	6.48	558.44	1350.80	105.46
02	816.50	816.55		448.87	0.46	133.92	63.82		888.19	6.42	555.97	1336.53	105.42
03	817.61	816.70		446.66	0.45	133.27	63.52		887.39	6.29	547.08	1360.09	105.52
04	819.52	817.98		442.24	0.45	131.94	62.83		879.30	6.15	534.92	1364.95	105.75
05	824.61	821.40		468.70	0.48	139.81	63.22		884.77	6.07	563.18	1344.74	106.40
06	838.63	833.56		463.59	0.47	138.13	65.92		917.25	5.90	549.96	1393.38	108.28
07	840.56	839.30		472.81	0.48	141.15	67.23		932.39	5.94	562.93	1393.44	108.47
08	849.92	846.33		486.29	0.49	144.27	68.85	23.25	947.87	6.01	593.52	1428.29	109.70
09	855.00	851.95		511.13	0.52	152.28	72.63	24.74	1003.73	6.29	618.44	1449.48	110.37
10	863.24	857.88		525.34	0.53	156.69	75.02	25.47	1036.45	7.28	643.22	1455.12	111.46
11	880.83	872.53		514.65	0.52	153.60	73.18	24.97	1008.42	7.13	624.30	1455.26	113.76
12	902.00	891.86		535.79	0.54	159.80	76.17	26.07	1052.86	7.71	656.72	1508.05	116.45
1999 01	950.00	916.45	1099.96	563.90	0.57	167.64	79.95	27.26		8.30	687.16	1572.96	122.67
02	985.00	975.16	1087.10	555.77	0.56	165.71	79.03	26.95		8.07	681.52	1596.19	127.11
03	1041.24	1019.63	1120.58	572.94	0.58	170.83	81.50	27.78		8.67	703.30	1689.93	134.37
04	1014.43	1024.93	1074.94	549.60	0.56	163.92	78.12	26.65		8.53	671.36	1638.56	130.89
05	1005.00	1004.40	1050.43	537.07	0.54	160.14	76.40	26.04		8.28	659.60	1610.96	129.59
06	1014.73	1008.06	1056.64	538.40	0.55	161.21	76.85	26.19		8.36	660.33	1608.35	130.81
07	1018.18	1015.01	1073.16	548.70	0.55	163.60	77.99	26.60		8.72	668.34	1611.83	131.19
08	1046.96	1035.24	1096.80	560.78	0.57	167.21	79.71	27.19		9.43	684.71	1662.89	134.84
09	1058.62	1052.28	1104.51	564.73	0.57	168.38	80.27	27.38		10.04	689.30	1737.09	136.29
10	1070.46	1065.69	1142.45	584.12	0.59	174.17	83.02	28.32		10.10	713.97	1774.07	137.76
11	1070.00	1074.16	1087.12	555.84	0.56	165.73	79.00	26.95		10.34	678.35	1719.01	137.69
12	1072.37	1070.43	1086.85	555.70	0.56	165.69	78.98	26.94		10.42	676.15	1734.56	137.99

continued

End-of-period	RUR	CNY	KRW	CAD	AUD	THB	IDR	MYR	SGD	XAU	XAG	SDR
1993 12				298.28								549.62
1994 12	0.12	48.60		295.08								602.19
1995 12	0.10	56.94		347.61								708.53
1996 03	0.10	58.69	0.63	358.68								714.72
06	0.10	63.83	0.66	390.31								765.41
09	0.11	72.47	0.73	440.08								867.07
12	0.12	83.57	0.82	506.86								999.35
1997 01	0.13	88.03	0.85	541.78								1052.20
02	0.13	89.26	0.86	542.96								1022.33
03	0.14	100.04	0.92	603.66								1146.13
04	0.14	96.06	0.89	570.56								1090.92
05	0.14	95.47	0.89	575.55								1079.72
06	0.14	96.39	0.90	577.94								1088.30
07	0.14	96.53	0.90	578.04								1092.44
08	0.14	97.10	0.89	578.52								1083.88
09	0.14	97.19	0.88	580.76								1083.13
10	0.14	97.31	0.88	580.80								1085.42
11	0.14	97.74	0.77	570.12								1089.87
12	0.14	98.21	0.49	567.27								1095.06
1998 01	136.12	98.65	0.47	561.73								1099.70
02	136.11	98.62	0.49	574.21								1099.56
03	136.29	98.75	0.56	576.49								1101.05
04	133.74	98.98	0.57	576.94	537.93							1092.75
05	134.57	99.60	0.58	568.99	517.65							1108.30
06	134.70	101.29	0.60	571.41	507.16							1116.70
07	134.16	101.52	0.67	559.94	517.24							1122.32
08	77.27	102.65	0.64	544.04	482.97							1130.15
09	53.32	103.28	0.62	565.01	502.06							1177.57
10	51.41	104.28	0.66	559.24	534.48							1215.99
11	48.80	106.41	0.71	573.54	557.30							1221.02
12	42.65	108.96	0.74	582.16	547.97	24.73	0.11	237.68	543.18	257761.60	4446.86	1271.24
1999 01	40.77	100.00	0.80	625.45	601.40	25.57	0.10	250.33	563.55	272032.50	4849.75	1331.50
02	43.58	118.98	0.81	661.43	629.07	26.05	0.11	259.55	574.01	282842.75	6104.04	1352.72
03	39.74	125.75	0.85	688.15	660.30	27.63	0.12	274.02	599.97	291859.57	5692.56	1417.69
04	41.36	122.54	0.86	687.24	662.98	26.98	0.12	267.31	594.17	287337.30	5530.57	1372.80
05	40.67	121.40	0.85	684.67	652.80	27.08	0.12	264.82	581.26	271953.00	5168.10	1351.56
06	41.50	122.59	0.88	692.34	671.19	27.66	0.15	267.39	596.27	263119.49	5346.59	1361.01
07	41.90	123.01	0.84	676.33	662.28	27.23	0.15	268.30	599.28	258617.72	5499.95	1376.42
08	42.22	126.49	0.88	703.06	658.69	27.35	0.14	275.88	620.35	265456.71	5615.59	1424.45
09	41.73	127.89	0.87	719.73	691.33	25.98	0.13	278.95	620.35	290591.19	5853.91	1469.60
10	41.53	129.32	0.89	724.43	694.14	27.45	0.16	281.70	643.38	323493.01	5997.85	1490.93
11	40.42	129.25	0.89	728.59	680.89	27.47	0.15	281.58	639.76	316506.00	5653.02	1468.11
12	39.95	129.53	0.95	730.75	691.09	28.52	0.15	282.20	642.41	308574.47	5651.60	1473.72

BALANCE OF PAYMENTS

in millions of dollar

	1996	1997	1998	1999 ¹
Current account	-36.9	102.9	-75.6	16.3
Trade balance	-87.4	65.1	-120.1	-39.9
Exports F.O.B	423.4	568.5	462.3	431.5
Of which : Copper concentrate	174.5	211.4	124.8	111.7
Monetary gold	52.4	117.0	117.2	95.9
Combed cashmere	51.6	30.9	33.0	43.0
Other	144.9	209.2	187.3	180.9
Imports C.I.F	-510.8	-503.4	-582.4	-471.4
Service balance	-6.0	-2.1	-11.6	-13.1
Receipts	55.7	52.7	77.9	75.8
Payments	-61.7	-54.8	-89.5	-88.9
Income, net	-13.3	-12.0	0.4	0.1
Interest payments	-9.3	-9.4	-9.2	-6.2
Transfer, net	69.8	51.9	55.7	69.2
Private unrequited transfers	6.2	4.2	2.5	7.4
Public unrequited transfers	63.6	47.7	53.2	61.8
Capital account	41.3	27.0	128.6	69.5
Medium and long term	72.0	104.3	124.1	124.2
Direct investment	15.9	25.0	18.9	30.4
Portfolio investment	0.0	0.0	0.0	0.0
Loan disbursements, net	56.1	79.3	105.2	93.8
Of which: Disbursements	93.4	116.2	122.4	112.3
Amortization	-37.3	-36.9	-17.2	-18.5
Short term	-30.7	-77.3	4.5	-54.7
Commercial bank, net	-9.3	-18.1	40.0	-17.7
Non-banks	-21.4	-59.2	-35.5	-37.0
Errors and omission	-26.9	-75.1	-51.4	-45.0
Overall balance	-22.5	54.8	1.6	40.9
Financing	22.5	-54.8	-1.6	-40.9
Increase in net official reserves (-)	16.6	-55.0	-5.6	-36.2
Use of IMF credit	-3.1	6.2	0.8	4.3
Arrears accumulation (+)/payments (-)	5.9	0.2	4.0	-4.8
Exceptional financing (rescheduling)	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0
Memorandum items :				
Current account deficit (in percent of GDP)	-4.0	9.9	-7.0	1.6
Gross official reserves	97.8	139.9	123.2	155.9
In weeks of imports	10.0	14.5	11.0	17.2

¹ Preliminary

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<http://www.mongolbank.mn/>

MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999
GDP growth, %	2.4	4.0	3.5	3.5
Industrial output, billion Togrog (at 1995 constant prices)	217.4	226.9	234.3	237.0
Annual inflation rate, % (1995=100)	44.6	20.5	6.0	10.0
Unemployment, thousand (end of the year)	55.4	63.7	49.8	39.8
Export, million US Dollars	424.3	568.5	462.3	431.5
Import, million US Dollars	510.8	503.4	582.4	471.4
Government budget revenue, billion Togrog (at current prices)	162.9	220.7	240.0	259.4
Government budget expenditure, billion Togrog (at current prices)	211.3	284.1	342.1	344.4
Currency issued in circulation, billion Togrog (end of the year)	46.1	56.8	61.8	91.6
Narrow money M1, billion Togrog (end of the year)	64.3	76.1	82.6	114.8
Broad money M2, billion Togrog (end of the year)	128.4	170.1	167.2	220.2
Official exchange rate, 1USD=Togrog (end of the year)	693.5	813.2	902.0	1072.4