THE BANK OF MONGOLIA

ANNUAL REPORT 2001

Governor of the Bank of Mongolia Ochirbat CHULUUNBAT

STATEMENT FROM THE GOVERNOR

Ladies and Gentlemen:

I am pleased to present the 2001 Annual Report of the Bank of Mongolia (Central Bank) outlining our activities directed at implementing the State Monetary Guidelines as well as providing monetary statistics data.

Slowdown in economic activity of some industrial countries led to the slowdown in global economic growth, which in turn, negatively affected both the price of commodities in world markets and export performance.

In 2001, in spite of the drop of production in agricultural sector caused by the continued unfavorable weather conditions, manufacturing and mining sectors progressed steadily, and the year was a challenging one for the financial sector. Budget deficit, by preliminary data, reached 4 percent of GDP, which is 34.7 percent lower compared to previous year, industrial output has increased by 11.8 percent, and these developments build-up a base to facilitate a further economic growth.

Stabilization of prices, exchange rates and deepening of financial intermediation have been the main contributions of financial sector to our country's economic growth. Confidence of people and enterprises in the banks has increased, and that resulted in the highest levels of savings and outstanding loans since 1990. Current account balances of banking sector have increased by 22.1 billion togrog or 33.8 percent, deposits increased by 41.9 billion togrog or 45.2 percent, the share of total outstanding loans in the GDP is 11.9 percent, and of money supply is 29.3 percent.

The reporting year was specific in terms of the policy stance maintained by the Bank of Mongolia. By reducing interest rate level and quantity of the Central bank's bills and maintaining a flexible money supply policy, the Bank of Mongolia softened the tight monetary policy continued from 1990s. As the banks' reserves increased, the primary and secondary markets for Central bank bills and Government bonds tend to become more active.

In 2001, performance of the Agricultural bank, which has a wide network presense in rural areas, improved substantially. Also, activities of the Trade and Development and Golomt banks expanded, and other private banks' activities increased as well. All these developments resulted in an increase in the banking sector activity. Along with that, numerous non-bank financial institutions have been established. They have been instrumental in creating new job places, increasing sources of money and providing financial service to lower social strata. Also during the year a substantial amount of foreign direct investment has been placed into the banking sector.

In 2002, the Bank of Mongolia will continue to maintain the above-mentioned principal macroeconomic and financial sector stabilization policies.

Sincerely yours,

Ochirbat CHULUUNBAT

Ulaanbaatar 2002

1.	BRIEF REVIEW OF THE WORLD ECONOMY	7
2.	BRIEF REVIEW DOMESTIC ECONOMY	21
3.	DEVELOPMENTS IN THE FINANCIAL SYSTEM	45
4.	BANKING SECTOR DEVELOPMENT	57
5.	CENTRAL BANK ACTIVITIES	68
6.	IMPROVEMENTS IN LEGISLATION RELATED TO BANKING	98
7.	CHRONICLE OF BANK OF MONGOLIA'S POLICY AND TECHNICAL MEASURES IN 2001	102
8.	AUDITORS' REPORT	106
9.	STATISTICAL APPENDIX	132

1. BRIEF REVIEW OF THE WORLD ECONOMY

1.1.	World Economic Development	8
1.2.	Interest Rates and Exchange Rates	16
1.3.	Commodity Markets	18

1. BRIEF REVIEW OF THE WORLD ECONOMY

1.1 World Economic Development

The tragic events of September 11 in the United States caused a great deal of damage to the global economy, and there is a possibility that the attacks will bring many more negative effects. Indeed, recent data suggests that the world economy was weaker than earlier thought even before the terrorist attacks. Furthermore, these attacks, while affecting the United States most directly, can clearly be seen as a shock with global reach, given the worldwide impact on confidence, financial markets, and growth prospects.

Growth in more advanced economies was 3.9 percent in 2000, while growth in 2001 is expected to be lower than forecasted and may only reach 1.1 percent. The outlook for 2002 is lower than in previous years and now is expected to be 0.8 percent, due to reductions in growth in the United States, Japan, Canada, the euro area and newly industrialized Asian economies.

For developing countries as a whole, growth has been lowered to 4 percent in 2001. Nevertheless, growth of close to 4.4 percent is expected in 2002, which is supported by relatively strong activity in China and India, a significant turnaround in Turkey's economic prospects, and reasonably firm growth in the transition economies and Africa.

Advanced Economies

United States and Canada

While almost all indicators in the United States and Canada had weakened more than was expected before September 11, the attacks and their aftermath led to further declines. Declines in consumer spending and non-defense durable goods orders seemed to signal a possible bottoming out of economic activity. The initial sharp fall-off in some indicators has at least partially reversed since September, helped for example, by significant sales incentives for automobiles in the retail sector. Most indicators of household and business activity continue to suggest that growth remained subdued in the latter part of 2001. In the labor market, job losses and new claims for unemployment benefits in October reached their highest levels since the early 1990s. The housing market appeared surprisingly robust through August, but recently released indicators suggest that a substantial slowing is likely. Moreover, some sectors, particularly travel and entertainment, have faced severe financial difficulties since September 11. Fiscal policy was eased substantially during 2001, including in response to the events of September 11. On the monetary side, official interest rates were reduced by 4.75 percentage points since the beginning of 2001, including 1.75 percentage points since September 11. In Canada, the slowdown has been sharper than earlier envisaged, mainly reflecting events in the United States. Real GDP growth has slowed substantially since late 2000, with growth of 1.4 percent now expected in 2001, 3 percentage points lower than in 2000.

Table 1. Overview of the world economic outlook projections (annual percent change)

			Projections	
	1999	2000	2001	2002
World Output	3.6	4.7	2.4	2.4
Advanced economies	3.3	3.9	1.1	0.8
Major industrial countries	3.0	3.5	1.0	0.6
Other advanced economies	4.9	5.2	1.5	1.9
European union	2.6	3.4	1.7	1.3
Newly industrialized Asian countries	7.9	8.2	0.4	2.0
Developing countries	3.9	5.8	4.0	4.4
Countries in transition	3.6	6.3	4.9	3.6
World trade volume (goods, services)	5.4	12.4	1.0	2.2
Imports				
Advanced economies	7.7	11.5	-0.3	1.4
Developing countries	1.7	16.1	5.0	6.5
Countries in transition	-7.8	12.6	11.2	7.8
Exports				
Advanced economies	5.2	11.6	-0.3	0.5
Developing countries	4.7	15.0	3.4	4.5
Countries in transition	0.2	16.3	7.8	6.4
Commodity prices				
Oil				
In SDRs	36.5	62.6	-11.2	-24.2
In U.S. dollars	37.5	56.9	-14.0	-23.7
Nonfuel				
In SDRs	-7.8	5.6	-2.3	1.1
In U.S. dollars	-7.0	1.8	-5.5	1.7
Consumer prices				
Advanced economies	1.4	2.3	2.3	1.3
Developing countries	6.8	5.9	6.0	5.3
Countries in transition	43.9	20.1	16.0	11.0
Six-month London interbank offered rate (LIBOR, percent)				
On U.S. dollar deposits	5.5	6.6	3.8	2.8
On Japanese yen deposits	0.2	0.3	0.2	0.1
On euro deposits	3.0	4.6	4.1	2.9

Japan

The events of September 11 and their aftermath have exacerbated what was already a difficult and troubling economic situation in Japan. Household and business confidence have fallen further in recent months, while business conditions have continued to weaken, especially in the manufacturing sector, where indicators of excess capacity, employment, and inventories have all deteriorated. Weaker economic prospects and persistently low equity prices have added to concerns about the financial system's stability. The steep downturn in exports since 2000 also looks set to continue in 2001, especially given the prospect of delayed recoveries in the United States and Asia and the ongoing weakness in the global electronics market.

Euro Area

Economic prospects in the Euro area have also deteriorated over recent months, with the events of September 11 hitting economies that were already slowing as a result of regional and global shocks, including higher oil and food prices, the reassessment of the technology and telecommunications sector, and the associated fall in equity prices. Indicators of industrial production, service sector activity, and business confidence have weakened throughout the area. While the Euro area has less policy stimulus in the pipeline than the United States, it also, in some respects, appears less vulnerable to adverse shocks to confidence and activities than the United States; external balances are stronger; households are less indebted and less exposed to stock market developments; and concerns about overinvestment and overcapacity among firms appear to be lower. On the side of policy, the European Central Bank has lowered official rates by 1.5 percentage points since the beginning of the year, including 1 percentage point since September 11. The IFO business confidence indicator in Germany has fallen to its lowest level since 1993, while declines elsewhere have been less stark. Other leading indicators of business conditions have yet to show a turning point, making the timing of recovery uncertain. The fall in global confidence and activity is also significant, given the importance of trade and other international economic and financial linkages. For example, the large share of trade between the United States and Europe taking place between subsidiaries of multinational companies (such “related party trade” accounted for around 65 percent of all U.S. imports from Germany in 2000) may tend to strengthen the balance sheet linkages associated with this trade channel. Consumer confidence has also been declining, probably reflecting international linkages in sentiment together with weak real income growth and rising unemployment, and appears likely to stay under pressure as a result of the increase in domestic and global uncertainty. Tax reductions in Germany and France have continued to provide support to demand.

In the United Kingdom, economic activity has so far been more resilient to the global downturn than activity in other major advanced economies. Industrial output has continued to fall while exports weakened in the second quarter, influenced mainly by the shocks to the information technology (IT) sector and also by the strong exchange rate. Demand has been buoyed by strong private consumption growth and by already budgeted increases in government spending. However, the recent softening of business and consumer confidence, as well as house prices and labor market indicators, suggest that private consumption growth is likely to slow down. The Bank of England has lowered interest rates by 1 percentage point since the terrorist attacks.

Other Advanced Economies

The outlook for other advanced economies has also deteriorated, driven by the weakening prospects for trade and declining business and consumer confidence, but with important country-by-country differences.

Figure 1. Growth of World Real GDP

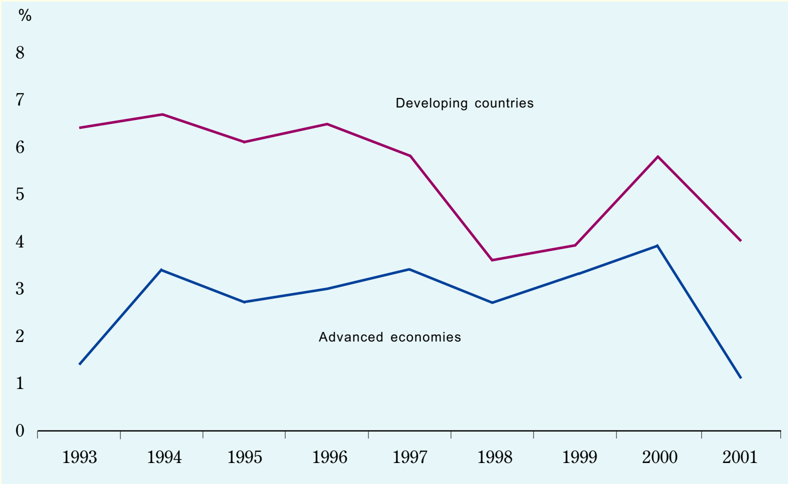


Figure 2. World Inflation rate

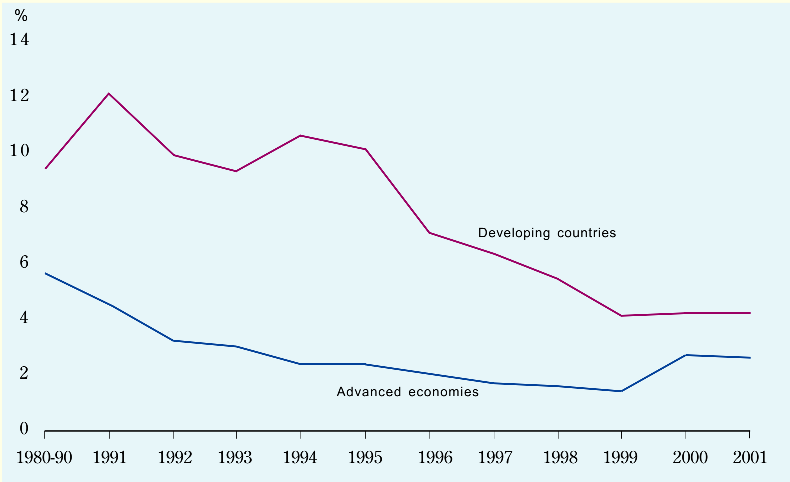
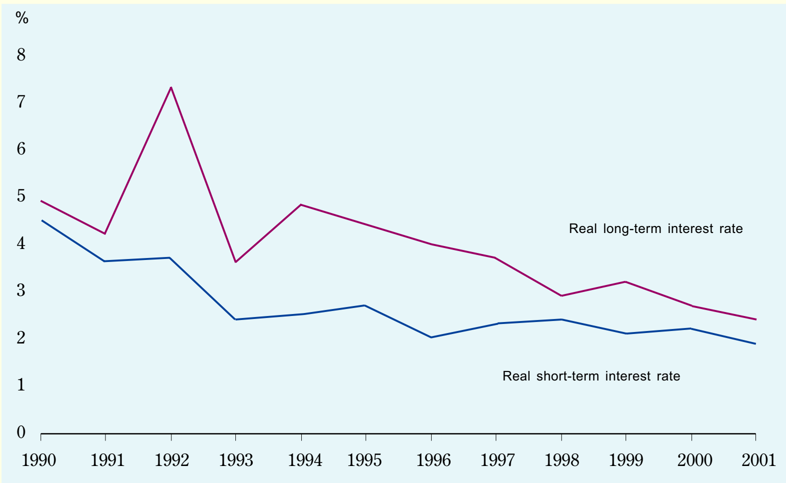


Figure 3. World real long-term and short-term interest rate



The smaller European economies outside the euro area: Denmark, Norway, Sweden and Switzerland have faced poorer export market conditions in Europe and falling domestic confidence, also some more specific pressures. Norway, for example, is exposed to oil market developments; Switzerland has experienced some currency appreciation stemming from safe haven related capital inflows following September 11.

Economic conditions in Australia and New Zealand appear reasonably robust despite some recent weakening in confidence. Export performance has been well-sustained in both countries in 2001, helped by weak currencies and, in New Zealand, by more favorable agricultural growing conditions. This has contributed to sharp reductions in their current account deficit. Household spending has also held up quite well: house construction is up strongly in Australia, supported by lower interest rates and earlier homeowner incentives; and lower interest rates, rising rural incomes, and continued low unemployment are contributing to the resilience of demand in New Zealand.

South East Asian Countries

The economic activity of the members of the Association of South East Asian Nations has continued to deteriorate. From mid-2000, industrial production and exports slowed sharply, driven by the global slowdown, especially in the high technology sector, and more recently by weakening growth in Europe and Japan. Looking forward, growth in most Asian countries is expected to pick up in 2002, supported by an upturn in global activity and in the electronic cycle. However, there are important risks to the outlook, particularly given the increased global economic and financial market uncertainty following the September 11 terrorist attack on the United States.

Given the improvement in economic fundamentals since the Asian crisis, including large current account surpluses, higher reserves, reductions in short-term external debt, and widespread adoption of flexible exchange rates, most countries are in a better position to manage such risks. However, a further slowdown in growth would exacerbate pressures on already weak financial and corporate sectors. In particular, export growth in Asia's newly industrialized economies turned down sharply, accompanied by a rapid decline in industrial production, which has resulted in the steepest economic slowdown in 2001. In the Philippines and Thailand, growth has been adversely affected by the electronics demand slowdown and poor performance of the banking system. In Indonesia, market sentiment has improved following the recent peaceful resolution of the political crisis, and the recent tightening of fiscal and monetary policy improved the economic activity and strengthened the rupiah. However, major challenges remain, particularly for addressing concerns about decentralization, containing inflation, and accelerating progress with bank and corporate restructuring.

Emerging Markets

The sharp reaction of advanced economic financial markets to the September 11 attacks were echoed and amplified in emerging markets, with falling stock prices and weakening

Box 1. The long-term Impact of September 11

On 11 September 2001 a series of attacks were launched on America. It was a day that many around the world would never forget. On this day the hijacked planes crashed into the twin buildings of the World Trade Center and the Pentagon. The terrorist attacks claimed the lives of 2919 persons. 102 persons are still reported to be missing. The U.S. National Income and Product Accounts estimate the losses to property from the September 11 attack at about USD 16 billion, just over 0.15 percent of annual GDP. In addition, the horrific loss of life and injuries are estimated to lead to other insurance costs of approximately USD 5 billion (0.05 percent of annual GDP).

Direct Costs of September 11 Attacks (Billions of US dollars)

Loss	Cost
Structures, Equipment, and Software	
Private	14.0
State and local government	1.5
Federal government	0.7
Subtotal	**16.2**
Other Insurance Losses	
Life and related costs	2.6
Workers compensation	1.8
Homeowners and other	0.6
General government	0.2
Subtotal	**5.2**
Total	**21.4**

The main channel through which the continual threat of terrorism could affect the long-term potential of the global economy is by raising transactions costs, resulting in a reduction in potential output. These costs can be broken down as follows:

- *Higher operating costs.* Businesses may experience higher operating costs, owing to increased spending on security, higher insurance premiums, and longer wait times for activities
- *Higher levels of inventories.* Businesses may be required to hold larger inventories than previously, owing in part to less reliable air and rail transportation. For instance, production in the auto industry was interrupted because components were not immediately available from suppliers after the September 11 attacks, owing to delays in shipments crossing the U.S.-Canadian border.
- *Higher risk premium.* As a result of the attack, lenders' appetite for risk may decline, leading to higher risk premiums that may be passed on to businesses in terms of higher interest rates and lower equity prices, causing an adverse effect on investment, and a smaller capital stock.
- *Shift of resources away from the civilian labor force toward the military.* More resources may be diverted toward the military for use in the containment of terrorism. In addition, research and development resources may be shifted away from productive activities toward the development of new devices to thwart terrorism.
- *Shift away from globalization.* The attack may have effects on firms' investment decisions-in particular, whether to invest domestically or abroad, in part because of potential disruption of cross-border flows of goods and assets.

Views of the long-term impact divide roughly into three camps:

- *The most commonly held view is that there will be few consequences for the long-term outlook for the United States and elsewhere.* This assumes that the persistence of the disruptions caused by the terrorist attack will be limited, registering as a small downward shift in productive potential. A useful parallel to assessing the impact may be the assassination of U.S. President John F. Kennedy in 1963. Despite the uncertainty following the assassination of President Kennedy, the economy and equity market strengthened following an initial decline.
- *A significant minority believes that the terrorist attack will have a noticeable impact on productive potential, particularly if additional terrorist activity occurs on a sustained basis.* This pessimistic view is based on the assumption that the threat of terrorism will create considerable uncertainty, instability, and significantly higher transaction costs. This negative scenario can be compared to the effects of the 1970s oil crises.

  A few argue that the attack will benefit the economy in the long run. This "creative destruction" view holds that the setback in the economy will enable producers to shed much of their unproductive activities, leading them to adopt newer technologies to become more competitive and thereby enabling the economy to grow at rates in excess of those that prevailed earlier. This positive scenario can be compared to the effects of the Y2K project. In the Y2K case, companies were required to update and improve existing software, which increased their flexibility in adopting new technologies more rapidly.

currencies. The countries with substantial external financing requirements remain vulnerable to potential reassessment of global or domestic economic prospects and to further shocks to international financial markets. These concerns are probably the strongest in Latin America-notably in Argentina, which is experiencing renewed financial turbulence, but also other regional economies with persistently high current account deficits and large external debts. In Argentina, the financial sector reform has been so complicated that it has affected its political stability. In Turkey, the exchange rate fell substantially in September and early October and output fell by 6 percent, with growth decreasing to 0.2 percent. The economies of Central and Eastern Europe and the Baltic states are attracting foreign investment without difficulty, possibly reflecting increased discrimination among investors toward countries with stronger economic fundamentals.

Commodity price developments, from mid-2001, will have the most direct and sizable impact in the Middle East, among the Commonwealth of Independent States (CIS), and in Africa, where many countries are heavily dependent on a narrow base of fuel and non-fuel commodity exports.

China

Although exports have slowed markedly in 2001, overall activity remained strong, in part because total exports, and especially exports of high technology goods, comprise a much lower share of GDP, led by buoyant private consumption and strong public investment. China’s near-term vulnerability to external shocks is also limited both by its high level of foreign reserves and by strong inflows of foreign direct investment, which is running at around USD 40 billion a year. The key economic challenges, which have become more urgent with impending entry to the World Trade Organization, remain as the strengthening of the banking sector, which despite recent loan transfer to asset management companies, remains burdened by high levels of non-performing loans, and a move forward with enterprise restructuring and a gradual shift to a more flexible exchange rate regime.

Transition Economies

Following a strong pick-up in 2000, regional GDP growth is expected to fall to 4.9 percent in 2001, due to export growth which is increasingly affected by weakening global demand, particularly in Germany. In Poland, where economic activity has weakened sharply and inflation is declining, interest rates have been reduced, most recently in August 2001. With interest rates still remaining very high in real terms, there appears a scope for further easing. In contrast, in Hungary inflation has returned to double-digit levels. Also the recent widening of the exchange rate band is facilitating the necessary tightening of monetary conditions. In the Czech Republic, demand and economic activity remained strong in the first quarter but have since shown signs of slowing. The Central Bank raised its policy interest rate for the first time in March 1998, against a backdrop of rising headline inflation. The economic activity in the Baltic States is expected to remain relatively robust, with a moderate growth slowdown in Estonia.

Figure 4. Consumer prices of countries in transition

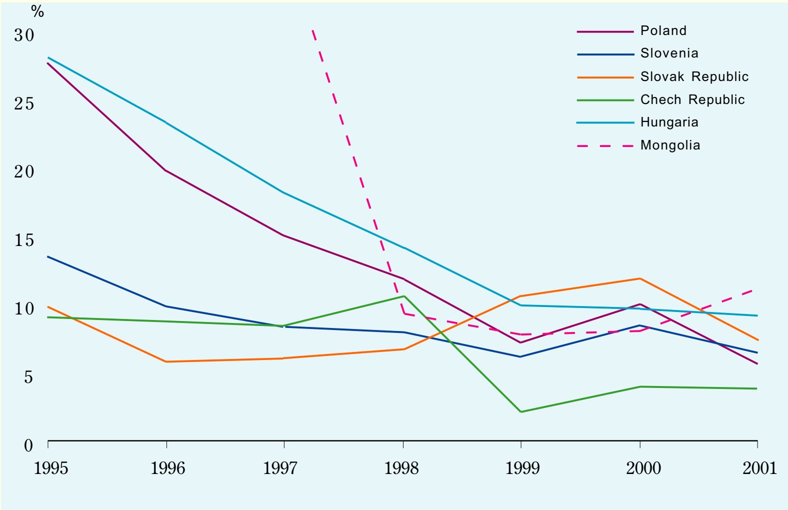


Figure 5. Real GDP of countries in transition

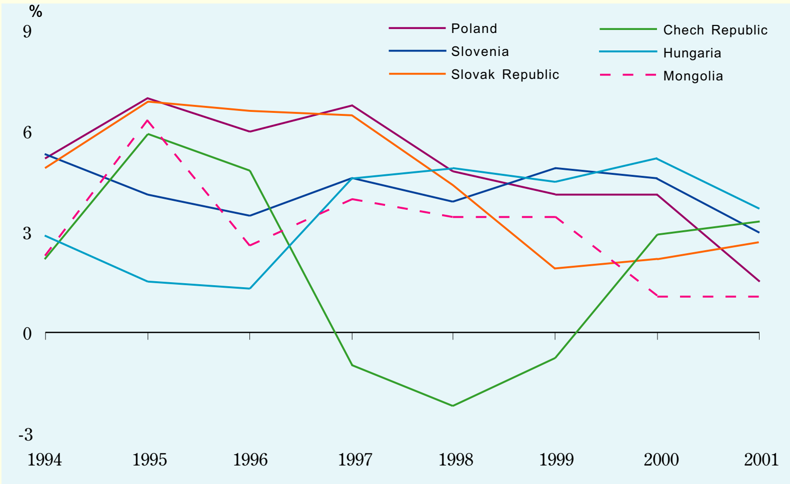
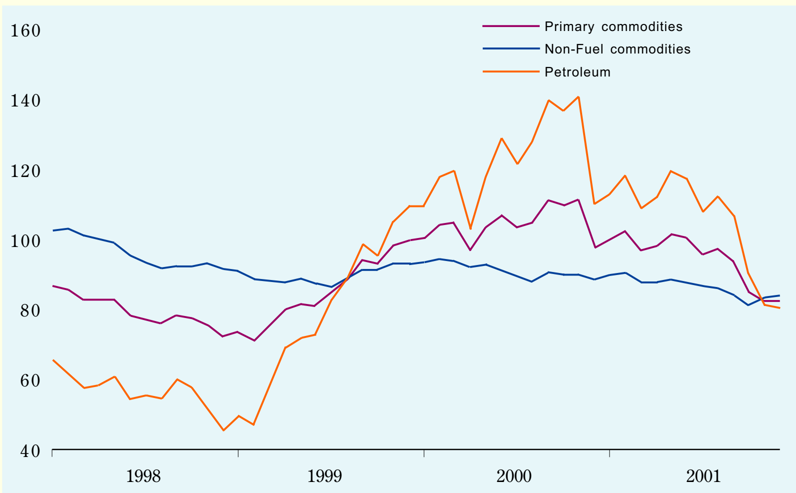


Figure 6. Commodity Price Index (1990=100)



Following the recession induced by the Russian crisis in 1998, the Commonwealth of Independent States (CIS) experienced a strong and widespread recovery in 1999-2000. In Russia particularly, the combination of higher oil prices and sharply depreciated exchange rates led to a surge in GDP growth to 8.3 percent in 2000. In 2001, regional GDP growth is expected to reach 6.1 percent. In Russia, despite some weakening in oil prices from their late 2000 peaks and continued high capital outflows, the external current account and overall balance of payments are expected to remain in strong surplus. The authorities face the difficult task of creating appropriately tight domestic liquidity conditions to restrain inflation while avoiding an overly rapid real appreciation of the ruble that could threaten economic growth. Despite stronger than expected fiscal surpluses, inflation is running ahead of projections, suggesting that monetary policy may need to be tightened. Similar challenges are faced in Kazakhstan. Ukraine's economic growth, inflation, and external position have performed significantly better than expected based on sound macroeconomic policies. Inflation has continued to remain at a high level in a few countries, particularly, Belarus, Tajikistan and Uzbekistan. In Armenia, Georgia, the Kyrgyz Republic, Moldova and Tajikistan, the dramatic increase in external debt over the past decade is a serious threat to external and fiscal sustainability and is of particular concern given the very low per capita income and high poverty levels in these countries.

1.2 Interest Rates and Exchange Rates

The global slowdown that started most prominently in the United States in 2000 had, by mid-2001, become a synchronized downturn across almost all major regions of the world. This left the global economy particularly vulnerable to a negative impulse through, among other things, an erosion of the financial position of consumers, corporations and governments. Financial markets have remained volatile, partly reflecting rapidly changing expectations about the duration and depth of the slowdown. In mature markets, equity prices rallied temporarily in April and May, but have since fallen significantly as incoming news on corporate profitability remained weak and growth prospects deteriorated. Yields on government bonds broadly mirrored these developments. In currency markets, the U.S. dollar continued to appreciate in nominal effective terms through July, while the yen and the euro remained relatively weak. In August and September, however, as concerns about U.S. growth prospects increased, the dollar depreciated moderately against most major currencies, with the euro returning close to its level against the dollar at the beginning of the year.

In emerging markets, financial developments have been influenced by mature markets. While spreads for most emerging market countries declined through June, there were substantial increases in Argentina, which also affected Brazil and Turkey. As difficulties in Argentina and Turkey intensified in July, their spreads widened sharply, with spillover to other emerging markets, particularly in Latin America.

In the United States, the terrorist attack occurred after earlier policy easing, making room for further policy maneuvers constrained. The main financial market response was a flight to quality that increased borrowing costs for riskier borrowers.

Figure 7. World market price of crude oil

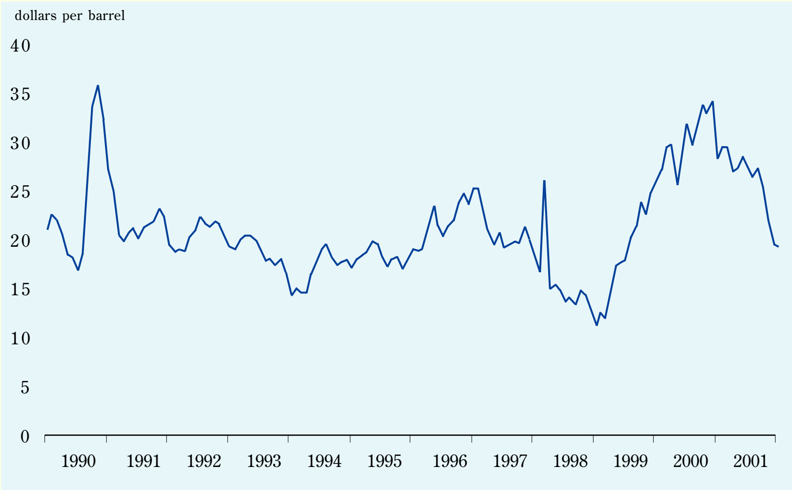


Figure 8. World market price of copper

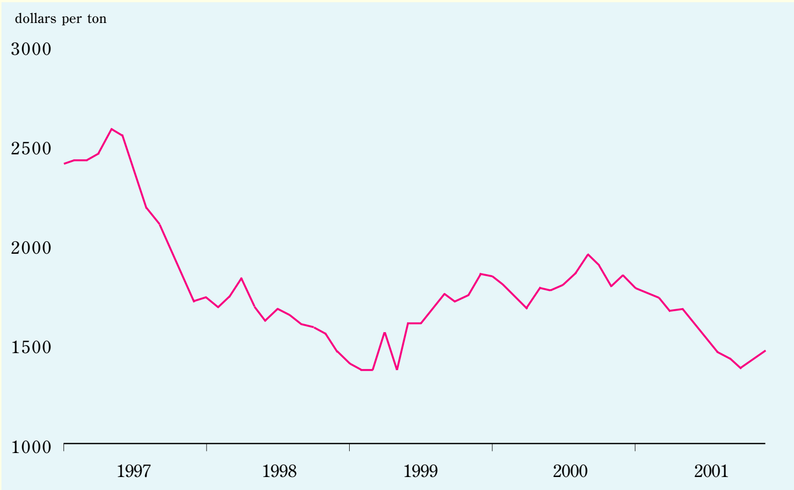
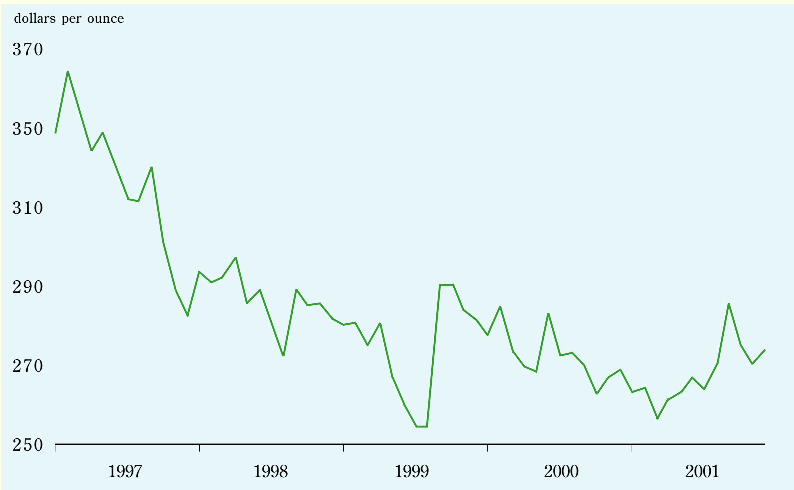


Figure 9. World market price of gold



1.3 Commodity Markets

From January to August 2001, prices remained within OPEC's target band of USD 22 to USD 28 per barrel, although with fluctuations. Prices moved close to the upper end of this range early in 2001 and again in late May. But the increasingly sluggish pace of global economic activity, together with rising stocks of oil and oil products, led to a substantial weakening of prices in June and July. Immediately following the September 11 attack, crude spot prices initially increased, but then receded back to levels prevailing in the week before the attack. Prices were dampened by reassurances by OPEC members of production increases if they became necessary, and falling demand for crude and oil products, particularly for jet fuel, associated with air transport restrictions. After fluctuating around USD 20 per barrel through early November, oil prices softened further in response to OPEC's difficulties in coordinating global production cuts, particularly among non-OPEC producers. While discussions between OPEC and Russia to cut production by 200,000 barrels per day continued, the futures price for 2002 delivery fell to USD 18 per barrel. The near-term outlook for prices clearly depends on the willingness of exporters to agree on production limits.

Inventories and prices of metals have reacted quite promptly over recent years' signals of weakening or strengthening in the global economy. The large inventories of metals accumulated in the aftermath of the 1997-98 financial and economic crises began to rundown in 2000, but then renewed accumulation in 2001 as industrial production weakened. Aluminum prices declined by 15 percent and copper prices by 18 percent, between January and the end of August, 2001. For these and most other metals, prices are expected to pick up in 2002 as recovery of the global economy takes hold. However, prices generally appear likely to remain well below their levels of the mid-1990s.

Gold prices reached USD 286 per troy ounce at the end of May. In response to the September 11 terrorist attack, gold prices initially moved up sharply and then came down again, though remaining above their level for the first half of 2001.

While the current slowing in global demand may exacerbate price weakness, low prices for most agricultural commodities tend to stem from supply rather than demand conditions. In particular, price declines over recent years have led to some strategic shifting among annual crops but have generally not led to a decrease in overall production. The situation has been most serious for coffee, cocoa, sugar and cotton. Noteworthy exceptions to the overall weakness in agricultural commodity markets are timber and meat prices. Meat prices have been affected by problems in Europe and South America with decreases in livestock. Timber prices have been supported by strong construction demand, particularly in the United States.

2. BRIEF REVIEW DOMESTIC ECONOMY

2.1.	General Review	22
2.2.	Government Finance	29
2.3.	Balance of Payment	34
2.4.	Price and Wages	40
2.5.	Employment	42

2. BRIEF REVIEW OF DOMESTIC ECONOMY

2.1 General Review

During the reporting period, the Mongolian Government in cooperation with public organizations implemented a policy aimed at promoting growth, strengthening the legal and economic environment for financial intermediation, and providing macroeconomic stabilization. The year 2001 was declared the "Year for promoting domestic production" and an action plan was adopted. As a result of the implementation of these measures, the capacity for processing raw materials increased locally - production of leather products and shoes increased 36 times and the domestic production of de-haired cashmere, camel wool, washed wool, felt shoes, and textiles increased 43.9 - 89.8 percent. In 2001, 4.8 million head of livestock were lost, which is higher than the previous year by 1.3 million, due to an extremely harsh winter, animal disease and drought. The GDP growth rate was only 1.1 percent, mainly due to a decline in production in the agricultural sector. Assuming the agricultural sector's level of production remains the same as in the year 2000, the GDP growth rate is estimated to be 6.6 percent overall, and at 10.0 percent, if excluding the agricultural sector decline of 2001.

Adoption by Parliament of "Mongolia's regional development strategy" was a very essential preliminary condition for Mongolia to reduce its territorial economic and social development inequality, and to step toward sustainable growth in the 21st century.

In 2001, unfavorable weather conditions had a negative impact on the agricultural sector's output, especially for animal husbandry. However, it was a year marked with visible recovery signs in the industrial and banking sectors. During the last year, a realistic trend toward the stabilization of the economy has been achieved, as evidenced by: a foreign exchange rate of MNT to the US dollar remaining relatively stable, the budget deficit declining by 34.7 percent to 4 percent of GDP, according to preliminary data, and industrial sector output increasing by 11.8 percent.

The money supply (M2) increased by 27.9 percent, while the consumer price index (CPI), at 11.2 percent (measured by the growth rate of M2), was 2.5 times lower than the growth rate of the M2. The price increase for food items was 15.1 percent overall, with the main factors of this development in housing, fuel and electricity increases of 21.5 percent.

Customer confidence in the banking system has improved and bank credit and deposits reached their highest level since 1990. Banking system checking accounts increased by MNT 22.1 billion or 33.8 percent, savings deposits by MNT 41.9 billion or 45.2 percent, followed by an increase in new credits. At the end of 2001, the share of total deposits to GDP was 11.9 percent; loan to GDP 11.9 percent; and money supply to GDP was 29.3 percent. Furthermore, non-performing loans in the banking system declined by MNT 5 billion, and its percentage of total loans outstanding declined 15.8 points to MNT 10.9 billion.

Table 2. Annual GDP growth (at constant prices)

	1996	1997	1998	1999	2000	2001
Gross Domestic Product	2.4	4.0	3.5	3.2	1.1	1.1
Industry	-3.6	-3.3	4.2	1.1	2.4	11.8
Agriculture	4.4	4.3	6.4	4.2	-14.4	-16.0
Construction	2.6	-2.7	-1.1	1.6	-14.6	12.4
Transport, communication	11.2	5.8	7.4	6.1	25.2	12.9
Trade	0.3	17.1	-3.1	1.3	25.7	8.7
Service	7.3	-0.6	1.7	5.4	2.1	5.7

At the end of this reporting year, the trade deficit totaled USD 150.4 million - 14.7 percent of GDP. Total trade turnover declined, due to a lower volume of all of the main export items, except gold, and lower imports for machinery, equipment, food items, and textiles. Price decreases in copper and cashmere on the world commodity market and an outbreak of foot and mouth disease in Mongolia were the main factors causing the decline of export volumes in copper and animal originated raw materials. At the same time, the import volume of oil products, especially petroleum, increased substantially.

The Government completed a review of its annual arrangements with the IMF and reached an agreement on a medium term program. As an outcome of the 8th annual meeting of donor countries held in Paris, France in 2001, USD 330 million funds were promised to Mongolia, from which 52 percent will be in concessional loans. Foreign direct investment increased by 17.3 percent in comparison to the previous year, reaching USD 63 million. The majority of these inflows were invested in mining, banking, and the service sectors.

The survey on determining the minimum living standard, which was conducted by National Statistics Office, revealed that 35.6 percent of the total population lives in conditions below minimum living standards. Even though this is 0.7 points lower than 1995 levels, the degree of poverty is deepening and the income gap has increased substantially.

Industry

During the reporting year, the industrial sector employed 63.2 thousand people and produced 170 commodities with total sales of MNT 624.2 billion (at current prices) at foreign and domestic markets. Total output of the industrial sector increased by MNT 28.8 billion or by 11.8 percent, reaching MNT 272.5 billion (at 1995 prices). The largest increases came in the production sub-sector, with 22.7 percent growth, mineral exploration increasing 9.8 percent, and electricity, thermal energy and steam by 2.5 percent. In comparison to the previous year, the percentage share of some sub-sectors' output increased significantly, such as the share of textile manufacture which increased 1.4 points, food production, leather tanning, mining of crude oil, and natural gas production each increased by 0.5 points. However, the percentage of the sector coming from the production of electricity and thermal energy declined by 1.6 points, production of other mineral exploration by 1.1 points, and mining of metal ore by 0.5 points.

In 2001, 381.4 thousand tons of copper concentrates and 209 thousand tons of fluorite concentrate were produced, as well as 73.8 thousand barrels of crude oil and 13.7 tons of gold.

In comparison to 2001, the production of 122 commodities increased, such as electricity, thermal energy, pure water, crude oil, coal, gold, copper concentrate, molybdenum concentrate, red brick, textiles, de-haired cashmere, bread, salt, alcohol beverage, wine, spirits, candles, medicine, and other products. The production of 41 commodities declined including fluorspar concentrate, carpet, metal mould, chalk, wheat flour, macaroni, and others. However, the remaining 7 recognized commodities of rubber and plastic products, radio and TVs, communication equipment, beauty soap, and others were not produced at all. Ulaanbaatar city's share of total sales from the industrial sector was 49.7 percent, followed by Orkhon aimag's 26.8 percent, and the Central aimag's 8.7 percent.

Agriculture

By the end of 2001, the livestock census showed the total number of livestock had reached 26.1 million head, of which 285.2 thousand were camel, 2.2 million horses, 2.1 million cattle, 11.9 million sheep, and 9.6 million goats. The total number of livestock decreased by 13.8 percent, or 4.2 million head, from the previous year. The following is a summary of the reductions in livestock: camels by 11.7 percent or 37.7 thousand, horses by 17.7 percent or 469.9 thousand, cattle by 33.2 percent or 1,028 thousand, sheep by 14 percent or 1,948.3 thousand, goat by 6.7 percent or 685.2 thousand. Of the female portion of the livestock, 70.1 percent or 9.3 million head have generated new offspring and of those 79.5 percent or 7.4 million reached maturity, which is 902.6 thousand less than in the year 2000. The survival and growth rate of young livestock decreased 3.1 points in comparison to the previous year.

Due to a countrywide winter disaster (Zud) and an outbreak of foot and mouth disease, 15.7 percent or a total of 4.8 million head of livestock were lost. The structure of total losses was as follows: sheep 41.8 percent, goats 26.9 percent, cattle 21.4 percent, horses 9.5 percent, and camel 0.4 percent. There is a need for herdsmen to abandon traditional nomadic husbandry methods and transition to small work groups and farms, if they are going to survive the winter disasters and animal disease that has become common over the last few years.

Countrywide in 2001, 217.6 thousand hectares of land were cultivated, which is 4 percent higher than the previous year. Out of the total cultivated area, 199.6 thousand hectares were under wheat, 8.9 thousand hectares under potatoes, 5.6 thousand hectares under vegetables, and 1.9 thousand hectares under fodder. Even though the yields of staple agricultural crops decreased by 2.3 percent per hectare from the previous year, the total cultivated area increased by 8.3 thousand hectares. Total production was comprised of

Figure 10. Real GDP growth rate

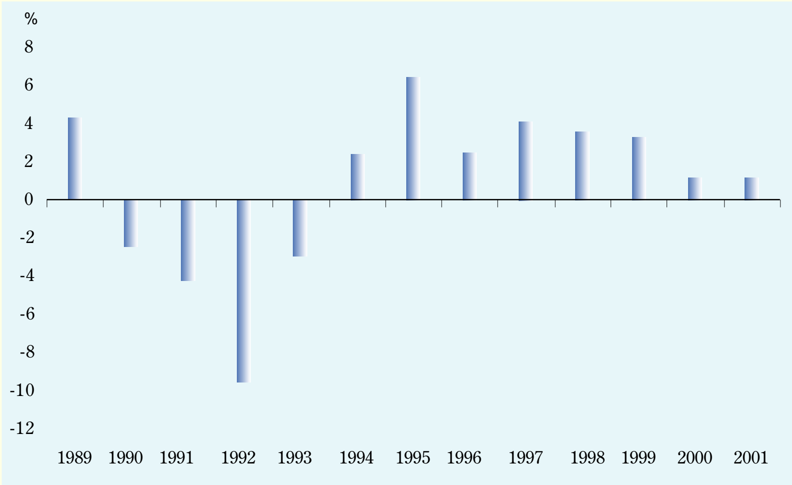


Figure 11. Composition of GDP (by sector)

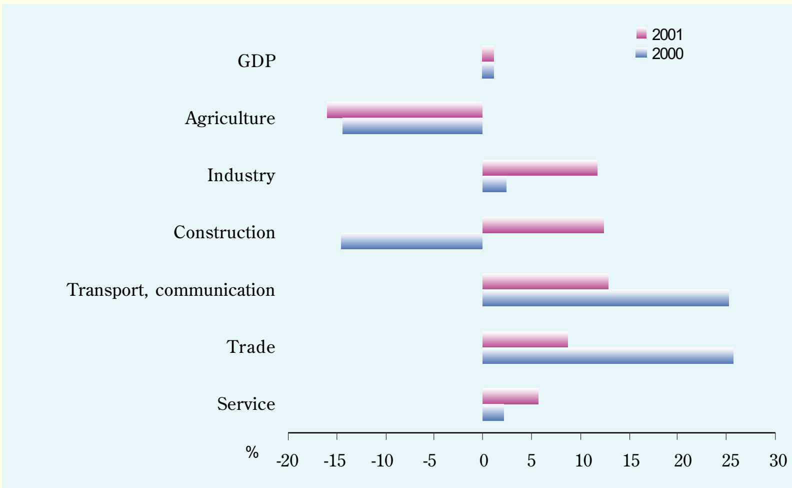
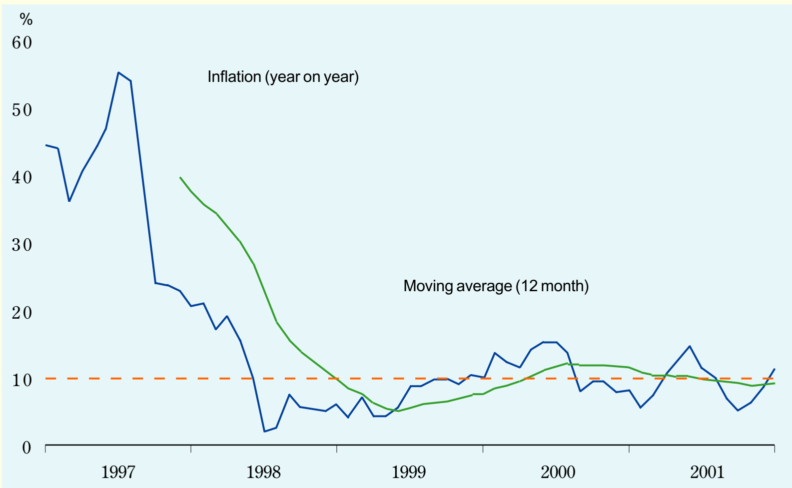


Figure 12. Inflation rate



142.2 thousand ton of wheat, 58 thousand ton of potatoes, and 44.5 thousand ton of other vegetables, showing a trend toward recovery in the agricultural sector. Also, 802.6 thousand tons of hay was produced and 16.9 thousand ton of handmade fodder was prepared. As a result of the "Green Revolution," strategy, developed by the Government over the last few years, fruit-bearing areas increased 15.8 percent and the total fruit harvest increased by 13.9 percent from the previous year. The apple crop increased 2.2 times and the share of apples in the total fruit harvested was 42.6 percent.

Construction

In the reporting year, construction companies (domestic and foreign companies operating in Mongolia) completed construction and capital repair work valued at MNT 77.2 billion, which is higher by 0.1 percent in comparison to the previous year. A majority of the work (78.9 percent) was undertaken by domestic construction companies and the remaining 21.1 percent was completed by foreign companies. Also, the following construction projects valued at MNT 22.4 billion were completed and turned over: household clinic, school, factory, office and service buildings, and paved road. In the construction sector 15.7 thousand people were employed, which is higher by 45.4 percent or 4.9 thousand people.

Mongolian construction companies completed construction and capital repair work valued at MNT 60.9 billion, which is an increase of MNT 2.5 billion or 4.3 percent. However, the construction work completed by foreign companies decreased by MNT 2.4 billion or 12.8 percent and totaled MNT 16.3 billion.

Of the total number of construction companies operating in 2001, 63.8 percent were private or privatized companies, 25.8 percent were state-owned enterprises, and the remaining 10.2 percent were joint ventures.

In 2001, 61.4 percent of all construction work was done in Ulaanbaatar City, 11.8 percent in Orkhon aimag, 2.3 percent in the Central aimag, and 24.5 percent in other aimags. Also the following representative projects were completed during the reporting year: an apartment complex for 30 families in district "40 thousands" of Ulaanbaatar City, a resort building in Selhi, "Future" complex, a deep-ground well, a gas station. In addition, equipment valued at MNT 4 billion was installed, as part of the "Water Meter" project. Other projects included a 400 student school building in Jargalant soum in Arhangai aimag, a 171 meter concrete bridge over the Orhkon River, a 2000 sq. meter airport landing strip in Bulgan aimag, and a sauna.

Transportation and Communication

In 2001, 11.8 million tons of goods and 98.5 million passengers were transported within Mongolia using all types of transportation. Goods transported increased by 11 percent or 1.2 million tons; passengers carried increased 5.9 percent or 5.5 million persons, from the previous year. During the reporting year, out of total goods transported, rail freight accounted for 86 percent, and auto transport accounted for the remaining 14 percent. Also,

Figure 13. Consumer Price Index (by structure)

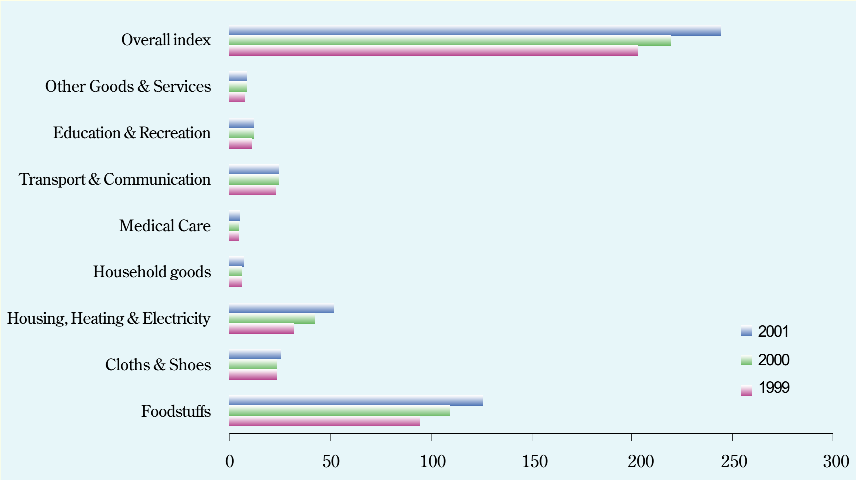


Figure 14. Gross industrial output growth (at 1995 prices)

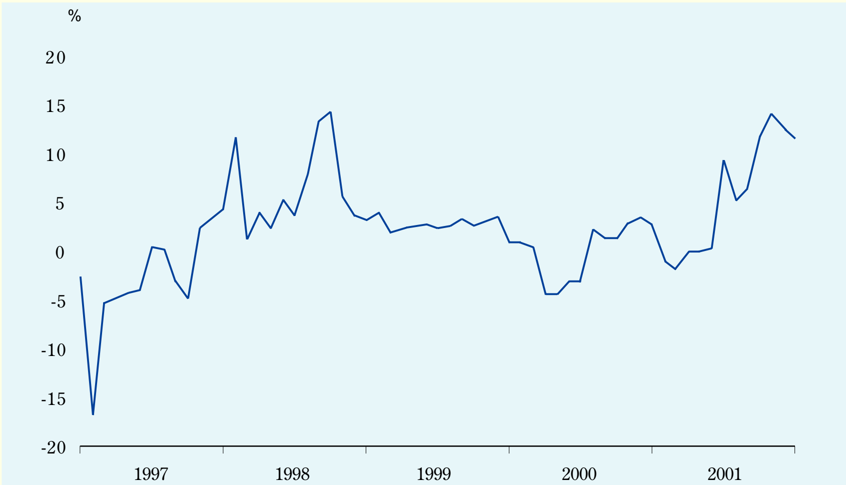
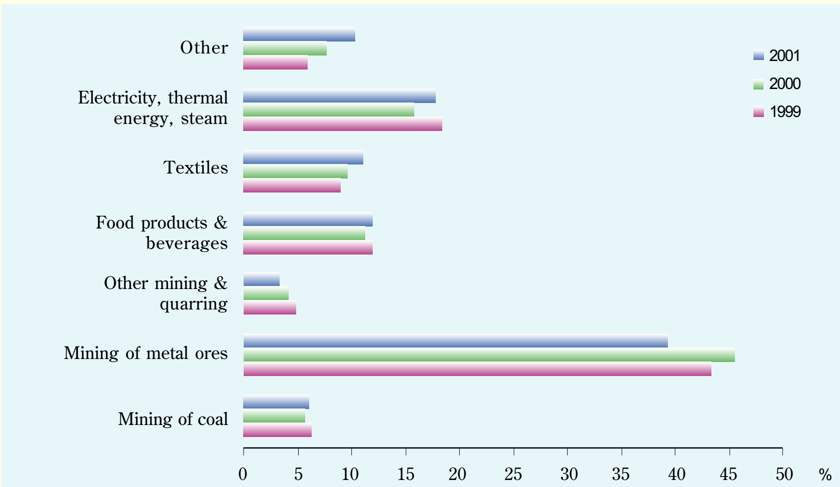


Figure 15. Gross industrial output (by structure)



Box 2. Profitability of "Erdenet" ore dressing factory

The biggest Mongolian enterprise is a Mongolian-Russian Joint Venture with the following: an ore-dressing factory, an open pit, a machinery repair plant, a transport facility, a thermal power plant and 18 other production and auxiliary units, as well as housing, amenities, production and auxiliary facilities related to the joint venture's operations.

The above table shows that the production of copper concentrate is at a relatively stable level. The Erdenet enterprise fulfills the production plan in physical value. However, since Mongolia is a world price-taker, the profitability of this enterprise fluctuates with price changes at the world market.

Mongolian Copper Production, Export and World Market Prices

	1995	1996	1997	1998	1999	2000
Copper, tons			2,702.6	2,322.3	1,545.2	641.1
Copper concentrate, thousands of tons	346.4	351.5	357.9	358.4	361.9	357.8
Export price, USD *	2069.4	1491.8	1517.3	884.7	879.9	1171.7
Average price, USD	2920.0	2301.7	2262.2	1654.6	1589.9	1803.0
Minimum price, USD	2824.0	1926.0	1719.5	1465.5	1368.3	1678.3

** Export price of Erdenet's copper in concentrate /source: Customs General Administration/*

Sales and Profit before Tax

Year	Sales, billion MNTs	Changes (in percent)	Profit before tax, billion MNTs	Changes (in percent)
2000	186.7	34.3	50.9	739.0
1999	139.0	44.3	6.1	251.0
1998	96.3	-41.2	-4.0	-108.2
1997	163.8	58.2	48.8	71.5
1996	103.5		28.5	

** Source: National Statistical Office*

From the above two tables, we can conclude that even though production of copper has been stable over time, Erdenet's sales and profit before tax change with copper prices in the world market. In 1999, the price of copper in the world market fell to the lowest point (price of 1 ton cathodes was USD 1354), and Erdenet Enterprise ran into financial problems. However, as a result of organizational improvements and effective use of resources, the Joint Venture managed to reduce the cost of goods. Sales revenue and total expenses reached MNT 142.8 billion and MNT 136.8 billion respectively, giving a profit of MNT 6.1 billion. The following factors mainly contributed to this achievement: reducing the prices of imports, raw materials, and electricity, which make up the largest portion of the cost of production. Also, the enterprise improved conditions in its export contracts. In 2000, the Joint Venture's sales of copper concentrate totaled MNT 186.7 billion and total expenses totaled MNT 135.8 billion resulting in a profit of MNT 50.9 billion. The price increase of copper in the world market and cost reductions have positively affected the profitability of the enterprise.

At the end of 2000, owner's equity of the Erdenet factory reached MNT 288 billion; up by 2.8 percent or MNT 7.8 billion over 1999. Return on equity rose from 1 percent in 1999 to 9.7 percent in 2000, thanks to a ten-fold increase in net profit, despite growth in owner's equity. Return on assets or profitability of funds invested, measures the overall effectiveness of management in generating profits from its available assets. This ratio for the Erdenet enterprise grew in the last two years and reached 7.4 percent in 2000. Despite those achievements, the above-mentioned ratios are still lower than levels of 1997.

Profitability of "Erdenet" Ore Dressing Factory

Ratios	1997	1998	1999	2000
Gross profit margin	29.2	-4.0	4.3	27.3
Net profit margin	14.6	-22.4	2.0	14.9
Return on equity	15.5	-8.1	1.0	9.7
Return on assets	10.4	-6.4	0.8	7.4

* The full version of this paper is available in the Publication section of the Mongolbank website www.mongolbank.mn

95.5 percent of passenger transportation was by auto transport, 4.2 percent by rail, and 0.3 percent by air transport. Auto freight increased by 12 percent and auto passenger transport by 6.4 percent; rail freight by 10.8 percent; inland water freight by 6.3 percent; air freight by 0.5 percent and air passenger transport by 0.8 percent. Two thirds of air passenger transportation was international and one third domestic flight while, 95 percent of rail passenger transport was domestic and the remaining 5 percent was international.

During the reporting year, total revenue from the transportation sector increased to MNT 120.8 billion or an increase of 18.4 percent from the level of year 2000. Out of the total revenue from the transportation sector, rail transport revenue accounted for 52.3 percent, followed by air transport at 34.4 percent, and auto transport at 13.2 percent.

In 2001, the communication sector generated MNT 34.7 billion in revenue, of which MNT 11.8 billion was from individuals. The total revenue increased by 9.8 percent or MNT 3.1 billion, mainly due to expanded operations at Mobicom and Skytel Companies. Employment in this sector accounted for 23.5 thousand people, which is an increase of by 1 percent over the previous year.

Trade and Service

According to preliminary results, the trade sector's volume of activity increased 8.7 percent, and other service sectors increased 5.7 percent. Hotel and dining services accounted for 10.5 percent, financial service 47 percent, immovable properties and business services 7.8 percent, healthcare and social welfare services 0.5 percent, public and private services 2 percent, and indirect financial services 25 percent.

2.2 Government finance

In 2001, Government fiscal policy was aimed at maintaining macro stability, achieving fiscal transparency, and settling arrears and payments accumulated from the past. Special attention was paid to securing a more stable tax base, strengthening budget planning and curtailing unproductive expenditures.

The budget's current account balance improved during 2000, with a current account surplus and an overall budget deficit at only 2.6 percent and 6.8 percent of GDP respectively for that year. During 2001, fiscal revenue was MNT 424.5 billion or 37.5% of GDP; fiscal expenditure was MNT 470.1 billion or 41.6 percent of GDP; current account surplus and the overall budget deficit reached MNT 56.1 billion or 5 percent of GDP and MNT 45.5 billion or 4 percent of GDP respectively. The overall budget deficit figure is less than the 6.8 percent of GDP, which is stipulated in the "Main Directions of Economic and Social Development of Mongolia in 2001."

When looking at the dynamics of the country's fiscal performance over the last 6 years, it appears that the main fiscal indicators for 2001 improved. However, there is a tendency toward an overall fiscal deficit, which was financed by foreign loans and grant aid.

A comparison of total tax revenues to GDP reveals a degree of tax burden within the economy. Using this measure, a tax burden of 19.7 percent in 1999 is derived, 25 percent in 2000 and a tentative measurement of 28.3 percent for 2001. The main reasons for this trend are an increase in tax rates and the number of brackets, improvements in tax collection efforts and a decline in economic growth for the past two years, while the average growth rate has been only 1 percent.

Since September, 2001, the Government of Mongolia entered into an agreement with the International Monetary Fund for implementing a 3-year Poverty Reduction and Growth Facilitation (PRGF) program. The main objectives of this program are to support private investment, foster macroeconomic stability, promote 4-6 percent of real economic growth during the program's duration, tame inflation within a one-digit range, and reduce the debt burden by means of a declining budget deficit. In 2001, the PRGF program envisions most of its attention to be focused on reducing the percentage of fiscal expenditures to GDP by carrying out steady reforms in public employment and wage bills over 2002-2004. Within the program of fiscal consolidation, certain specific program targets were executed in the last quarter of 2001.

In order to streamline transactions between the central and local budgets, expenditures will be determined according to local needs and will be processed with a newly introduced method of retroactive re-financing based on revenue performance. It was decided to distribute VAT collections to local budgets through a Treasury Single Account (TSA) from 1st January, 2002. During the reporting period, a total of approximately 20 thousand transactions were processed through the TSA in the amount of MNT 466.7 billion of revenue and MNT 468.8 billion of expenditure.

Instead of classifying tax revenue by type of payer and to facilitate classification by revenue type, an increase in tax on gasoline and diesel was adopted. In addition, income and excise tax revenues are now categorized by income and tax revenues for automobiles and other types of transportation. Real estate taxes have been allocated to local budgets.

.

Because business entities will now have to pay a new tax on real estate, and to reduce tax pressure on entrepreneurs, tax expenses on real estate can now be deducted from taxable income. In addition, the allowable percentage of advertising expenses to taxable income that is tax-exempt has increased from 5 percent to 10 percent.

The Budget law was amended to require that each fiscal year budget will be drafted in combination with medium-term budget projections, in order to improve budget planning, enhance accountability and control over budget funds. This change should also strengthen budget discipline among budget entities and improve the Government's success in implementing its social policies.

Since January 2002, import duties have been reduced by 2 percentage points to 5 percent.

Table 3. General government budget

In billions of togrog

	2000 actual	2001 projection	2001 actual[1]	Changes of actual
Total revenue & Grants	343.2	404.5	424.5	81.3
Current revenue	339.7	396.3	415.1	75.4
Tax revenue	274.1	310.3	319.4	45.3
Income tax	74.1	69.2	65.0	-9.1
Social security contributions	38.7	45.1	46.1	7.4
Tax on property	0.3	3.3	1.6	1.3
Domestic sales tax	117.6	150.9	164.7	47.1
Taxes on foreign trade	31.9	29.5	27.5	-4.4
Other tax	11.5	12.3	14.5	3.0
Nontax revenue	65.6	86.0	95.7	30.1
Capital revenue	0.4	0.2	0.3	-0.1
Grants	3.1	8.0	9.1	6.0
Total expenditure	412.9	479.7	470.0	57.1
Current expenditure	305.0	355.3	359.0	54.0
Goods and services	200.7	238.2	247.6	46.9
Wages and salaries	84.5	89.8	91.6	7.1
Other goods services	116.2	148.4	156.0	39.8
Interest payment	18.5	19.4	16.2	-2.3
Subsidies and transfers	85.8	97.7	95.2	9.4
Subsidies	0.6	5.6	5.7	5.1
Transfers	85.2	92.1	89.5	4.3
Capital expenditure	45.2	54.8	50.3	5.1
Lending (net)	62.7	69.6	60.7	60.7
Current balance	34.7	41.0	56.1	21.4
Overall balance	-69.7	-75.2	-45.5	24.2
Financing	69.7	75.2	45.5	-24.2
Foreign, net	70.5	82.0	62.5	-8.0
Project loans	62.9	82.0	58.3	-4.6
Financial loans	13.3	25.4	23.9	10.6
Amortizations	-5.7	-25.4	-19.7	-14.0
Domestic, net	-0.8	-6.8	-17.0	-16.2

[1] Preliminary

Also, a tax law on business activities conducted by individuals, on which a precise tax base can not be determined, has been approved.

Budget Revenue

The 2001 budget revenue was generated 75.2 percent from tax revenues, 22.5 percent from non-tax revenues, 2.2 percent from foreign aid and 0.1 percent from capital revenues. When compared to last year, non-tax revenue increased by 1.9 points, tax revenue by 1.0 point, and foreign aid by 0.8 points.

Tax revenue performance was 102.9 percent of the plan, by revenue categories, of which tax from individuals and other taxes were only 15-18 percent of plan. In addition, due to a world economic slowdown and falling demand for export items, business income tax and import duty tax were not met. In particular, a reduction of duties from Erdenet and Gobi factories had a negative affect on budget revenue performance.

Amendments made in late 2000, to a package of laws concerning taxes, positively influenced revenue performance and expansion of the tax base in 2001. Introduction of a new tax on real estate aimed at expanding the tax base provided an additional MNT 1.6 billion of tax revenues in 2001. With Parliament approval of the amendments to the “Law on Excise Taxes,” since 2001, the following excise duties were imposed: per litre of imported beer - USD 0.20, per litre of imported wine - USD 0.75, per 100 cigarettes - USD 0.30. As a result of these amendments, a total of MNT 49.6 billion of excise taxes were collected, which represents a growth of 38.9 percent over last year.

In addition, in order to strengthen control over domestic producers of vodka and improve tax revenue performance, the “Law on Excise Tax Marks” became effective in 2001. This law provides support for more stringent tax collection. To reduce tax exemptions, a practice of exempting income spent on education, science and technology was discontinued in 2001. Also, voluntary insurance contributions from business entities will now be taxable. To reduce overall tax exemptions, import duties and VAT for equipment purchased by enterprises with foreign investment will no longer be exempted. Only equipment and heavy machinery to be used for manufacturing purposes by enterprises with foreign investment in priority sectors and export orientation will be exempted.

Preliminary results for 2001 indicate that capital revenues have been at the level of MNT 0.3 billion, which is 25.7 percent less than the previous year. And foreign aid revenue, which was MNT 3.1 billion in 2000, increased by MNT 6 billion, reaching MNT 9.1 billion.

Budget Expenditures

The breakdown of budget expenditures looks as follows: goods and services-52.7 percent, debt service expenses-3.4 percent, subsidies and current transfers-20.3 percent, capital expenditures and net lending-23.6 percent. Compared to 2000, expenditures on goods and services have grown by 4.2 points. However, capital expenditures and net lending, and

Figure 16. Budget deficit (percentage of GDP)

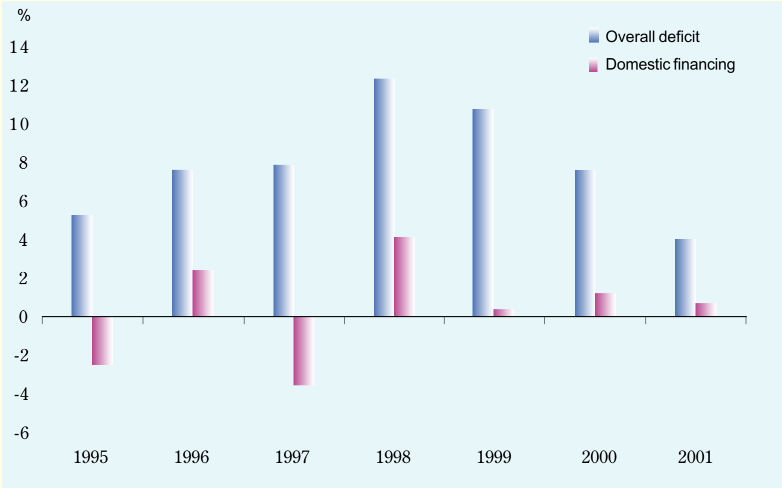


Figure 17. Budget revenue and grants

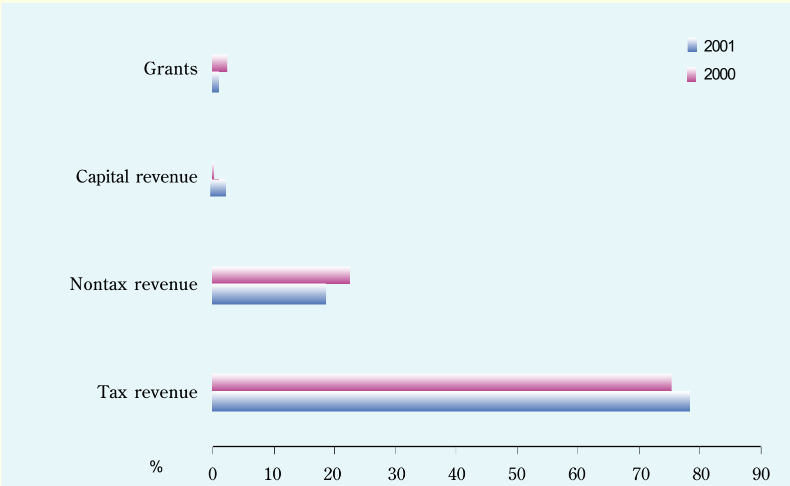
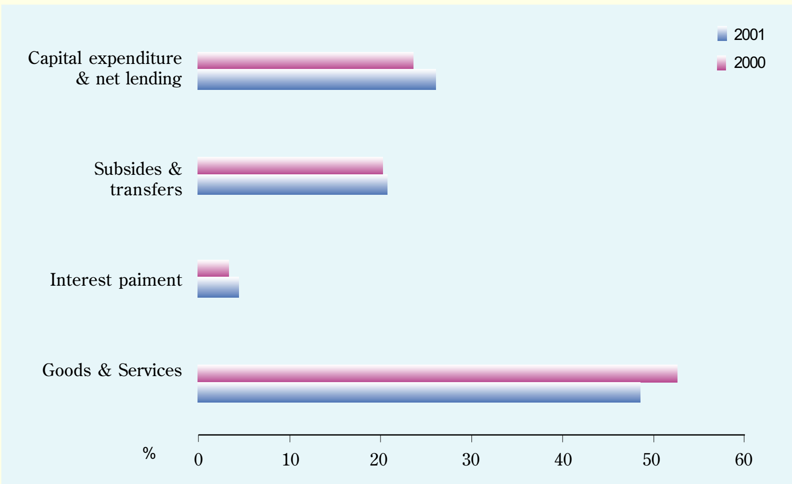


Figure 18. Budget expenditure and net lending (by structure)



debt service expenses have declined by 3.3 points and 0.8 points respectively. There have been no changes in the portion of subsidies and current transfers.

In 2001, policy was aimed at streamlining the structure of expenditures, abolishing or limiting unproductive expenditures and financing of essential social services. For instance, MNT 50.7 billion or 4.5 percent of GDP and MNT 97.6 billion or 8.6 percent of GDP were spent on health care and education, which constitutes 10.3 and 18.8 percent growth over last year.

In 2001, special efforts were made to settle past arrears. Local budget units were given the opportunity to receive a 60 percent reduction on their past arrears by the central Government if they could resolve 40 percent of their arrears themselves. Last year, 17 aimags took advantage of this opportunity to clear their past arrears. In 2001, 94.1 percent of planned expenditures have been financed.

Issuance of Treasury bills proved to be the most appropriate instrument for funding temporary seasonal financing gaps and solve weather related financial problems in 2001. In connection with the issuance of Treasury bills, a new practice was introduced for pre-budget planning of the associated interest expenses.

Also, the main items of social financing from the central budget, such as wages, pensions, benefits of budget units and subsidies to the pension fund and local budgets were financed in full. However, aimags only fulfilled their local budget revenue plan by 3.3-74.8 percent, with the total actual revenue from local budgets 14.9 percent of plan. In the future, by gradual privatization of certain segments of the social sector, there is an obvious need to implement a drastic re-shaping of the structure of budget expenditures to reduce the burden on the state budget.

2.3 Balance of Payments

The slow economic growth in major industrialized countries, where world economic capacity is most concentrated, caused a decline in production and investment. The resulting decreased demand led to a fall in world market prices for major raw materials, thus, negatively influencing the Mongolian economy. The world prices for copper, one of the most important export commodities of Mongolia, fell by more than 20 percent in the reporting year, to a level of USD 1,462 per ton at year end.

Current account income reached USD 679.3 million dollar while expenditures grew to USD 754.9 million leading to a current account deficit of USD 75.6 million, which is higher than last year by 8.15 percent. Yet, the capital account balance increased by 35 percent to a level of USD 112.3 million.

Despite a relatively high current account deficit, the MNT exchange rate remained stable due to the growing foreign currency inflow including investments, loans, grants, and private transfers.

Box 3. Terms of Trade of Mongolia

Terms of trade are measured by comparing import and export price ratios as follows:

$TOT=L_{px}/L_{pm}*100$

Where,

TOT- terms of trade

L_{px} - Laspeyres price index of export

L_{pm} - Laspeyres price index of import

Mongolian terms of trade during the period of 1996-2000 were as follows (1999 was taken as a base year):

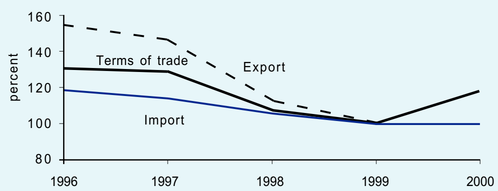
Despite a decrease in import price during 1996-1999 the terms of trade over the same period persistently worsened, which is explained by the decrease in a number of the export prices. Asian crisis, Russian ruble depreciation and price decrease of main export commodities such as copper and gold all had negative impact on the terms of trade over 1997-1999.

Trade Indicators

	1996	1997	1998	1999	2000
Export price index	154.9	146.8	113.4	100.0	117.6
Annual percentage change		-5.3	-22.7	-11.8	17.6
Import price index	118.6	114.0	105.7	100.0	100.0
Annual percentage change		-3.9	-7.3	-5.4	0.0
Terms of trade	130.6	128.7	107.3	100.0	117.7
Annual percentage change		-1.5	-16.6	-6.8	17.7

It is reasonable to assume that commodities with large weights in the 1999 basket, such as copper (26.26 percent), gold (21.11 percent), and cashmere (10.11 percent), have mostly defined the overall export price decrease. Indeed a sharp decrease in copper and gold prices in 1998 resulted in the worsening of the terms of trade by 16.6 percent. Copper price fell by 41.7 percent from USD 1517.3 per 1 ton in 1997 to USD 884.7 in 1998, whereas gold prices fell during the same period by 9.6 percent from USD 321.5 to USD 290.5 per ounce.

Terms of trade index and export price index in 1996-2000 (1999=100%)



The fact that the copper unit price fell by only 0.5 percent and the gold unit price fell by 6.3 percent in 1999 has resulted in a worsening of the terms of trade by 6.8 percent compared to 16.6 percent in 1998.

A decrease in the import price in 1998 and in 1999 could be explained by the abolition of import duties from May 1, 1997 to July 1, 1999. Terms of trade worsened by 1.5 percent in 1997, by 16.6 percent in 1998, and by 6.8 percent in 1999. But, in 2000, the terms of trade improved by 17.7 percent. This improvement is related to two factors. First, the import price index hardly changed compared to 1999, and second, copper, cashmere and gold unit prices increased by 33.2 percent, 78 percent and 1.6 percent respectively.

Price Changes of Main Export Commodities in 2000

Commodity	Weights in the basket	Unit price, US dollar		Price relatives, 1999=100
		1999	2000	
Gold	21.11	272.1	276.6	101.6
Copper concentrate	26.25	879.9	1171.7	133.2
Cashmere	10.11	39.3	70.0	178.0
Total	57.47			

* The full version of the paper is available in the Publication section of the Mongolbank website www.mongolbank.mn

Box 4. Mongolian import of oil products

Mongolian import of petroleum products reached 445.3 thousand tons or USD 109.8 million in 2000 and increased both in terms of volume by 8.6 percent or by 35.5 thousand tons and in terms of value by 53 percent or USD 38.3 million. 417.2 thousand tons of petroleum was imported from the Russian Federation, while 22.8 thousand tons was imported from China.

Import of petroleum oils

	measurement unit	1998	1999	2000	2000/1999
Petroleum oils	million USD	72.11	71.78	109.81	153.0%
	'000 tonnes	412.39	409.87	445.32	108.6%
Gasoline for motor vehicles	million USD	36.28	33.47	55.74	166.5%
	'000 tonnes	212.19	193.23	233.69	120.9%
Diesel	million USD	21.52	26.16	40.26	153.9%
	"000 tonnes	130.09	159.37	161.7	101.5%

Oil imports represented 17.9 percent of the total imports, which is an increase of 3.9 points compared to the previous year. The import of petroleum products consisted mainly of gasoline for motor vehicles (53 percent) and diesel (36 percent). Last years' sharp increase of imports of gasoline for motor vehicles is due to the significant increase in the number of motor vehicles in Mongolia.

Number of motor vehicles, by types

Year	Total	of which				
		Cars	Lorries	Buses	Tanks	Special purpose vehicles
1960	11,565	3,140	7,690	140	280	315
1970	21,632	4,343	14,876	703	695	1,015
1980	34,487	6,887	20,094	1,332	3,311	2,863
1990	43,792	7,962	24,400	2,591	4,754	4,085
2000	81,693	44,051	24,671	8,548	1,683	2,740
2001	93,071	53,198	24,747	10,187	1,613	3,326

Long-run unstable world market prices for 1996-2000 resulted in significant fluctuations of import and domestic prices.

Sharp changes have occurred on the Mongolian market of oil products. Before 1990 the only company involved in oil import was the state owned NIC* Company. However during the last decade this situation has completely changed. The following table shows how NIC Company has lost market share in the import of gasoline.

Oil prices

	Price of 1 liter of A-76 gasoline		Price of 1 barrel crude oil		Price of 1 ton	
	domestic market, MNTs	price change	world market price, USD	price change	imported petroleum, USD	price change
1996	144.0		20.7		184.56	
1997	210.0	45.8%	19.3	-6.4%	193.13	4.6%
1998	209.8	-0.1%	13.1	-32.4%	174.85	-9.5%
1999	295.1	40.7%	18.2	39.4%	175.14	0.2%
2000	349.8	18.5%	28.5	56.5%	242.46	38.4%

Whereas NIC Company's share of the gasoline market decreased from 74.4 percent in 1997 to 32.7 percent in 2000, their share of the diesel market fell from 38.8 percent to 14.9 percent in 1997.

Share of companies importing gasoline

	1997	1998	1999	2000
Gasoline for motor vehicles				
NIC	74.4	53.8	42.8	32.7
Others	25.6	46.2	57.2	67.3
TOTAL	100.0	100.0	100.0	100.0
Diesel				
NIC	38.8	29.1	29	14.9
Others	61.2	70.9	71	85.1
TOTAL	100.0	100.0	100.0	100.0

Current Account

Trade and Service Balance

In the reporting year, exports equaled USD 459.9 million and imports USD 610.3 million and as a result, the foreign trade balance became negative USD 150.4 million. Overall, foreign trade turnover declined by 11.7 percent to USD 1070.2 million. The main share or 67.7 percent of the current account income was gained from commodity export while transfers made up 16.5 percent and service receipts 12.7 percent. According to preliminary data, the current account deficit is estimated at 7.5 percent of GDP. As a percentage of GDP, exports declined by 10 percent and imports by 9.6 points respectively, compared with the previous year.

The decline in world market prices of main export raw materials including copper concentrate, de-haired and raw cashmere, skin and hides had a negative impact on the export volume. Consequently, the physical amount of copper concentrate exported increased by 6.3 percent while proceeds decreased 9.5 percent. In response to the reduced demand from major consumer countries, export of knitted and textile garments declined by 22.8 percent compared with the previous year. In the reporting year, the Bank of Mongolia sold 8.3 tones of gold - a total amount of USD 74.7 million on the international gold market. Export of gold increased by 7.1 percent compared with the previous year, which is 16.2 percent of total export. In comparison with last year, the export share of mining products increased while the export share of consumer and livestock products dropped.

Goods imported decreased by 9.7 percent due to a decline in food imports, industrial equipment and some consumer goods. The two point increase in import duties and value added taxes, growth of domestic food production (a substitute for imports), decreased demand for import of industrial equipment (a necessary technological innovation for mining and processing industries), were all contributors to a decline of total import volume. However, due to a rise in domestic demand, import of petroleum and oil products increased by 9.5 percent, construction supplies by 59 percent, and raw materials for the mining industry by 20.1 percent.

In the reporting year, Mongolia traded with 74 countries with 71.7 percent of foreign trade turnover belonging to China, Russia and USA. The main export commodity of the country, at 95 percent, was copper concentrate, which was exported to China. Petroleum and oil products imported from Russia, at 93 percent, were the largest exports of the country and influenced the increase in the neighboring countries' share. The reduced earnings from the export of copper and the increased import of petroleum and oil products led to a foreign trade deficit of USD 71.2 million, which is higher by USD 58.7 million than last year. However, trade with industrialized countries grew by USD 30.2 million reaching a positive balance of USD 11.8 million.

Table 4. Trade breakdown (by countries)

	Export		Import		Trade turnover	
	2000	2001	2000	2001	2000	2001
Neighbor countries	68.6	65.4	54.1	58.3	60.3	61.2
Russia	9.7	10.3	33.6	36.4	23.3	25.7
China	58.9	55.1	20.5	21.9	37.0	35.5
Industrial countries	28.1	30.8	24.3	19.3	25.9	24.1
USA	19.9	22.0	4.6	2.5	11.2	10.5
Japan	1.7	3.3	11.9	9.5	7.5	7.0
Germany	0.4	0.6	4.8	5.1	2.9	3.3
United Kingdom	2.4	1.7	1.0	0.7	1.6	1.1
France	0.4	0.0	1.4	0.9	0.9	0.5
Italy	3.1	3.0	0.5	0.4	1.6	1.5
Canada	0.2	0.2	0.1	0.2	0.2	0.2
Others	3.3	3.8	21.6	22.4	13.8	14.7
Korea	0.6	0.9	9.0	9.7	5.4	6.1
Singapore	0.0	0.0	1.7	1.5	1.0	0.9
Belgium	0.3	0.3	0.4	1.1	0.4	0.8
Poland	0.0	0.7	0.8	0.7	0.4	0.7
Kazakhstan	0.2	0.2	1.1	0.6	0.7	0.5
Others	2.2	1.7	8.6	8.8	5.9	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Service receipts reached USD 86.6 million, and payments USD 112.7 million giving a negative service balance of USD 26 million. In comparison with the previous year's figures, service receipts increased by 11.7 percent, while payments increased by 18.4 percent. 45.4 percent of service receipts were derived from tourism, 26.1 percent from air space use, 11.6 percent were from revenues of transportation agencies and the remaining 16.7 percent from other services extended. As the core service sector, tourism has grown an average of 9.3 percent in revenue for the last few years.

In the reporting year, interest payments for long-term foreign loans to the Government of Mongolia accounted for USD 8.5 million, 53.4 percent of total interest expenditures paid from the state budget. A substantial share of revenue was received from interest earnings on foreign assets in the banking system and from gold and foreign exchange trading operations' revenue.

International financial organizations and foreign countries donated goods in the amount of USD 61.8 million, equaling 11.1 percent of total imports. Of this amount, foreign grants accounted for 91.6 percent and humanitarian aid for 8.4 percent. Eighty percent of grant aid goods were received from USA, Russia, China and Japan and compared with the previous

Figure 19. Trade balance

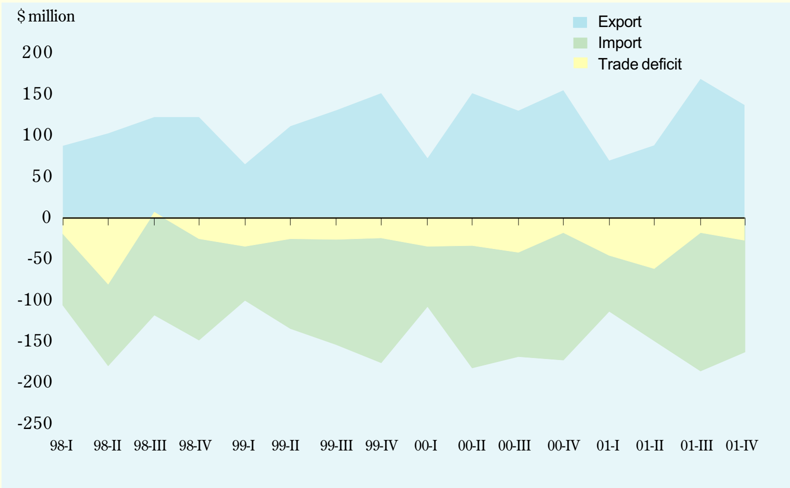
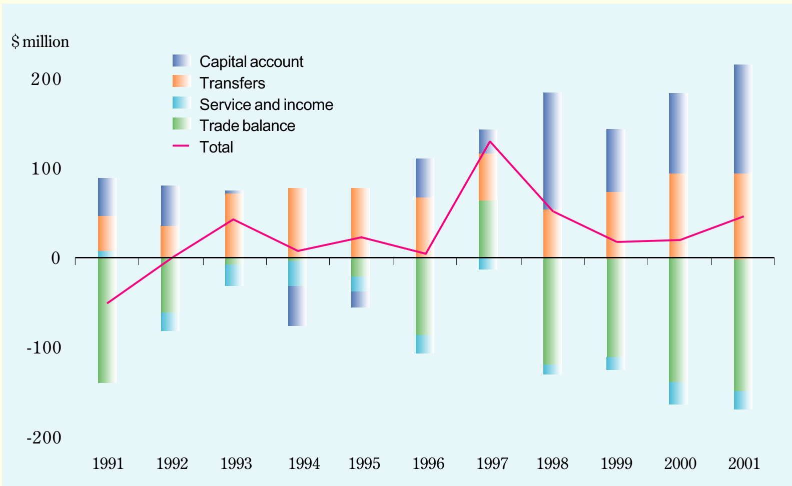


Figure 20. Balance of payments (net amount)



year, grant aid from USA and Japan declined while grants from Russia increased by 17.4 percent. Net private transfers grew by USD 11.1 million reflecting the increased number of Mongolian workers abroad.

Capital Account

Foreign direct investment increased by 17.3 percent, reaching USD 63 million. The major share of investment was in geology, mining, banking and finance, and the service sectors.

In the reporting year, the long-term borrowings of the Government of Mongolia from international financial organizations and donor countries accounted for USD 72.7 million and amortization of foreign loans accounted for USD 19.4 million. Of the state central budget current expenditures 11.2 percent were covered from foreign resources and 52.4 percent of fiscal deficits were financed by loans from international financial organizations and donor countries.

The ratio of foreign direct investment to outstanding long-term loans is one of the key indicators to determine recent economic development and future prospects of the country, as well as its vulnerability to changes in international markets and the financial capability of the Government. The movement of this ratio for the last few years has been showing an optimistic trend for the country.

Along with a positive influence of foreign direct investment in the economy, a rising number of small investments in some sectors have kept salary for employees low. This tendency is especially obvious in labor force industries including light industry.

The share of foreign direct investments in the capital account inflow was equal to 27.6 percent and the share of medium-and long-term loans was 71.8 percent. Recent economic development of Mongolia and the main portion of capital outflows have been attributed to short-term flows such as foreign assets of commercial banks and commercial credits to large enterprises. This data decreased, compared with the previous year, due to withdrawal of foreign assets by commercial banks due to high domestic credit demand and low sales of major export goods on foreign markets.

Net international reserves reached USD 160.1 million, which is 14.9 weeks of import needs of the country.

Table 5. Foreign direct investment and long-term loan

	1995	1996	1997	1998	1999	2000	2001
Foreign direct investment	9.8	15.9	25	18.9	30.4	53.7	63
Long-term loan	83	93.4	116.2	93.66	105.1	78.7	85.8
Ratio (Foreign direct investment/Loan)	0.12	0.17	0.22	0.20	0.29	0.68	0.73

Table 6. Balance of payments

in millions of US dollars

	2000	2001[1]				
		I	II	III	IV	
Trade balance	-140.2	-45.3	-59.6	-18.1	-27.2	-150.4
Exports F.O.B	535.8	68.1	88.4	167.1	136.5	459.9
Of which: Copper concentrate	160.3	34.4	41.5	37.0	32.2	145.0
Nonmonetary Gold	69.7	0.0	0.0	44.1	30.6	74.7
Others	305.8	33.7	46.9	86.0	73.7	240.2
Imports C.I.F	-676.0	-113.4	-148.0	-185.2	-163.7	-610.3
Of which: registered by customs	-614.5	-103.1	-134.6	-168.3	-148.8	-554.8
Service balance	-17.6	-3.7	-2.7	-8.2	-11.5	-26.0
Receipts	77.5	16.5	21.3	28.5	20.3	86.7
Payments	-95.1	-20.2	-24.0	-36.7	-31.8	-112.7
Income, net	-6.5	0.4	3.1	-1.3	4.5	6.6
Interest payments	-9.1	-1.7	-2.3	-1.9	-3.5	-9.4
Private transfers, net	-4.3	1.8	2.2	1.1	1.7	6.8
Current account deficit /excluding public unrequited transfers/	-168.6	-46.8	-57.0	-26.5	-32.5	-163.0
Public unrequited transfers	98.6	21.0	29.4	24.0	13.0	87.4
Official grants	86.2	17.3	25.4	20.6	8.8	72.1
Others	12.4	3.7	4.0	3.4	4.2	15.3
Capital account 89.8	21.0	33.4	5.9	60.9	121.3	
Direct investment	53.7	8.8	20.9	8.2	25.1	63.0
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0
Medium and long-term loan, net	82.7	8.3	16.6	7.6	39.7	72.2
Of which: Disbursements	156.6	40.0	34.2	37.9	51.6	163.7
Amortizations	-73.9	-31.7	-17.6	-30.3	-11.9	-91.5
Commercial bank, net	-13.0	-4.6	5.9	0.2	-0.2	1.4
Short term capital	-33.6	8.5	-10.0	-10.1	-3.7	-15.3
Errors and omissions	-18.8	-9.8	3.1	-10.7	-39.5	-56.8
Overall balance	1.0	-14.6	8.9	-7.3	1.9	-11.1
Financing	-1.0	14.6	-8.9	7.3	-1.9	11.1
Increase in net official reserves (-)	-1.0	14.6	-8.9	7.3	-1.9	11.1
Use of IMF credit	1.7	-1.2	-1.8	-1.9	3.2	-1.7
Changes of official reserves	-2.7	15.8	-7.1	9.2	-5.1	12.8
Arrears accumulations (+)/payments (-)	0.0	0.0	0.0	0.0	0.0	0.0
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

2.4 Prices and Wages

At the end of 2001, the annual rate of inflation was 11.2 percent, which is higher (by 8-9 points) than previous estimates by Bank of Mongolia. The average growth rate of the consumer price index (CPI) was 8.2 percent during the last year. Prices of goods and services, of all commodity groups, other than the cultural and educational group, increased by 0.2 - 21.5 percent from the beginning of the year. The consumer price basket is comprised of 239 commodities, of which prices for 54.8 percent increased, prices for 25.1 percent decreased, and prices of the remaining 20.1 percent did not change.

Due to increases in the prices for electricity and pure water, the prices of fuel and electricity increased 25.1 percent. One-time policy actions introduced by the Government were contributing factors to this increase. However, these should have less impact on next year's inflation development. The price of food items, which was the largest share of the basket, increased by 15.1 percent. Most dominant were the increases in the price of meat and meat products at 22.4 percent, alcohol, beverages and tobacco by 16.1 percent, potato and vegetables by 13.9 percent, milk and dairy products by 12.3 percent.

During the reporting year, the Government took a number of actions on social security and labor aimed to increase the level of disposable income and support employment. The minimum wage rate was fixed at MNT 24,750, which is twice the level prior to October 2000. Also individual pension payments increased MNT 1000-1700. The lower category of public servant wages increased 3.5-10 percent, starting April 15, 2001; soum (a smaller administrative unit then aimag) and household doctor wages increased 20 percent; soum center and neighborhood doctor, medical sister and nurse wages increased 10-20 percent; and teacher, educator and cultural officer wages increased 8-15 percent. Moreover, civil servants with monthly wages up to MNT 40,000 received an increase of MNT 3000 on average and those who had monthly wages above MNT 40,000 received an additional MNT 2500 on average.

2.5 Employment

Parliament established an employment support foundation based on local and foreign resources by adopting laws on supporting employment, exporting labor force, and importing labor force and specialists, which will help to increase the level of employment and thus decrease the level of unemployment. By creating a legal and economic environment that promotes employment in 2001, 904 people went to countries such as Japan, Russia, and Korea on contractual work and training courses.

According to preliminary data for 2001, about 16 thousand people were employed in vacant positions in factories and companies. According to the "Survey of unemployed work force among the working age group," the unemployment rate was 15.4 percent or 148.1 thousand people. This survey indicates a rate three times higher from the level of registered unemployed. Labor bureau operations are not well dispersed, labor force statistics are not well developed, and low confidence in labor registration bureaus are believed to be the main reasons for the discrepancy of this data.

The official number of unemployed is comprised (according to International standards and Mongolian legislation) of all persons of working age who are currently not involved in a paid position or self-employed and who are ready to work, actively looking for work and registered at the Employment Bureau. At the end of 2001, 40.3 thousand people were registered as unemployed at aimag and Ulaanbaatar City labor bureaus, which is 4.6 percent, or 1774 people, higher than the level of the previous year. During the reporting year, 34.3 thousand people were newly registered as unemployed. The structure of unemployment by level of education is as follows: 6.1 percent have university education, 12.8 percent have specialized secondary school education, 44.5 percent have not completed secondary school, 6.5 percent are with primary education, and 2.0 percent have no formal education. Out of the total number of registered unemployed, on average 54.3 percent were women. The age group structure of unemployed is as follows: 28.2 percent or 11.4 thousand people are between the ages of 16-24, 35.2 percent or 14.2 thousand people are between the ages of 25-34, 28.9 percent or 11.6 thousand people are between the ages of 35-44, and 7.7 percent or 3.1 thousand people between the ages of 45-49. During the reporting year, 26 thousand people entered into the workforce, out of the total registered unemployed, from which 18.7 percent were employed by state enterprises and budget institutions, and 81.3 percent by private companies, cooperatives and others.

3. DEVELOPMENTS IN THE FINANCIAL SYSTEM

3.1.	Money Supply	46
3.2.	Money Market	47
3.3.	Capital Market	48

3. DEVELOPMENTS IN THE FINANCIAL SYSTEM

It has been 10 years since Mongolia began its transition to a market-based economy in 1991 and established a two-tier banking system (central and commercial banks). As a result of monetary and financial policy, confidence in the banking system by the public, business people, and organizations has increased. In addition, as a consequence of a softening of the monetary policy of the last decade some significant changes occurred, such as a deepening of financial intermediation within the economy and a positive influence of the banking system on the real economy, and foreign investment in the financial and banking sector.

3.1 Money Supply

In the reporting period, the money supply reached MNT 331.1 billion, which is a MNT 72.2 billion increase in absolute terms compared to the same period during the last year and a 27.9 percent annual increase, again, within the target range of annual percentage change in the money supply stipulated in Monetary Police Guidelines. The compositional breakdown of the money supply stock is as follows: currency outside the banking system 33 percent, MNT term deposits 26.5 percent, current account balances and deposits without a specific term 14.2 percent, and foreign currency deposits 26.4 percent.

For the most part, changes in M1, which are a main determinant of the changes in M2, can be explained by movements in the amount of currency outside the banking system. The 13.8 percent increase in April, 10.2 percent increase in May, 8.2 percent increase at the end of the year of the level of the currency outside the banks, and 57.5 percent increase of the current account balances of business entities together contributed to the annual growth rate of 19.4 percent of M1, which reached MNT 156.2 billion. Compared to the same period in the previous year, currency outside the banking system increased by 8.2 percent, or MNT 8.3 billion, which constitutes 33.0 percent of the total money supply. This is a 6.0 percentage point decrease from the previous year. In the reporting period, compared to the same period in the previous year, reserve money increased by 8.2 percent or MNT 10.9 billion, and reached MNT 143.8 billion.

Quasi-money (MNT term deposits and foreign currency deposits) increased by 36.6 percent for an annual growth rate of MNT 174.9 billion, which makes up 52.8 percent of the total money supply. The increase in quasi-money was mostly due to the 48.4 percent increase in MNT term deposits or MNT 28.6 billion from the previous year. Trust in the national currency, the MNT, appears to have increased among individuals and corporations.

In order to stabilize the MNT's exchange rate and to satisfy the growing need for the MNT, the Bank of Mongolia purchased substantial amounts of foreign exchange resulting in an increase in currency outside the banks, MNT term deposits and total money supply overall. In other words, the growth of foreign assets was a main contributing factor in the

Table 7. Main indicators of financial sector

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
M2/GDP	53.8	52.4	27.6	21.9	23.7	18.5	19.9	20.4	20.5	23.8	24.8	29.3
Loan/GDP	80.4	68.0	40.4	16.2	16.3	11.4	10.9	6.5	11.6	8.9	6.5	12.0
Deposit/GDP	8.4	13.8	11.4	12.4	13.5	10.8	9.9	11.3	10.4	11.4	12.3	15.5
Currency outside banks/M2	13.1	17.1	14.1	20.5	24.4	25.1	32.5	29.3	33.7	39.6	39.0	33.0
Loan outstanding (billions of togrog)	8.4	12.9	19.1	31.6	52.8	62.7	70.3	54.3	94.6	82.1	67.7	136.1

increase of the money supply.

If one breaks down the changes in the money supply by sources, then net foreign assets grew by 9.2 percent, reaching MNT 220.2 billion, net domestic assets increased by 52.4 percent and are currently at MNT 129.3 billion.

3.2 Money Market

Certain highly liquid financial instruments with short-term maturities, such as securities, promissory notes, certificates of deposit, central bank bills and government bills are usually circulated through the money market. The central bank, government and commercial banks are the major players on this market and, in comparison to other markets the activity of the money market is more transparent and open.

In developed countries, treasury bills are issued not only to cover temporary budget deficits, but also as an important tool for the money market. The Mongolian Government held 23 sales of short-term bills amounting to MNT 39.7 billion in 2001 and paid interest of MNT 1.6 billion on these bills. This was done in order to meet budget obligations for salaries, pensions and allowances within the fiscal year; to recover local budget deficits; and to regulate the money supply by accumulating free currency (currency outside banks).

In total, 30.1 thousand Government bills were sold at 7 auctions. The nominal price of each Government bill was MNT 10.0 thousand for each individual buyer and the total sales amounted to MNT 289.4 million. Because an auction system was used for selling Government bills, the total value of Government bills sold in 2001 exceeded their sale values by MNT 153.8 million. This caused a reduction in the interest rate paid on Government bills.

The Government issued Government bills with five different maturities (14, 30, 60, 90, 120 days) and with interest rates ranging from 4.1 to 16.5 using the Mongolian Stock Exchange (MSE). The average interest rate on Government short-term bills in February, March, June, and August 2001 was close to the weighted average interest rate on the Central Bank Bills (CBB), whereas it was 1.26 percentage points below interest on CBB in September. Interest rates may decline under the following conditions:

Table 8. Reserve money, M2, CPI, exchange rate changes

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Reserve money	-55.6	157.1	168.6	104.1	28.7	36.5	23.1	18.7	49.9	18.6	8.2
Broad money (M2)	76.0	31.6	227.6	79.5	32.9	25.8	32.5	-1.7	31.6	17.6	27.9
CPI	52.7	325.5	183.0	66.3	53.1	44.6	20.5	6.0	10.0	8.1	11.2
Exchange rate	625.8	0.0	891.3	4.4	14.4	46.4	17.3	10.9	18.9	2.3	0.5

- Constant/continued sales of short-term Government bills
- Interest income paid in accordance with the Income Tax Law.

Of the Government short-term bills sold, 95.7 percent, valued at MNT 38.0 billion, were sold to banks in the reporting year. The remaining MNT 1.7 billion of bills were sold to companies and individuals. With the major share of Government bills being sold to banks it is clear the bills are not helping to attract currency being held outside banks by individuals, entities and other organizations.

In order to execute monetary policy, to influence price developments through controls over the reserve money and money supply as a whole, and to indirectly manage excess reserves within the banking system, the Bank of Mongolia has issued CBB since 1993.

A point of interest in 2001 is the selling of CBB, the main policy tool of the Central Bank, at discounted prices (selling at a discount, i.e. a price below par value, while repaying the buyer at par value). This has been done in accordance with international standards, as a way to develop the money market and inter-bank market.

The Bank of Mongolia issued CBB with four different maturities (7, 14, 28, 91 days), over 99 trades. In total, 69.0 thousand CBB were issued and 66.3 thousand of them were sold. In addition, 51.0 thousand bills were sold at the secondary market in 54 trades. The CBB sales in 2001 grew by 19.2 percent and CBB sold in the secondary market grew by 53.7 percent compared with last year. As of 2001, the weighted average interest rate on CBB in demand by the banks was 8.65 percent per annum - the same level as the previous year.

3.3 Capital Market

Mongolian Stock Exchange (MSE)

In 2001, a total of 400 limited liability companies were registered at the MSE. Fifty-seven of them have state participation in their ownership and 334 limited liability companies were fully privatized. A total of 274.3 million stock shares are registered of which 91.4 million, 33.3 percent, belong to the state. Another 182.9 million shares, 66.7 percent, belong to private investors. According to the new resolution of the Security Committee, 10 limited liability companies were de-registered, while one new company was added. The 400 registered limited liability companies were categorized in accordance with the new criteria provided in

Figure 21. Structure of money supply (M2)

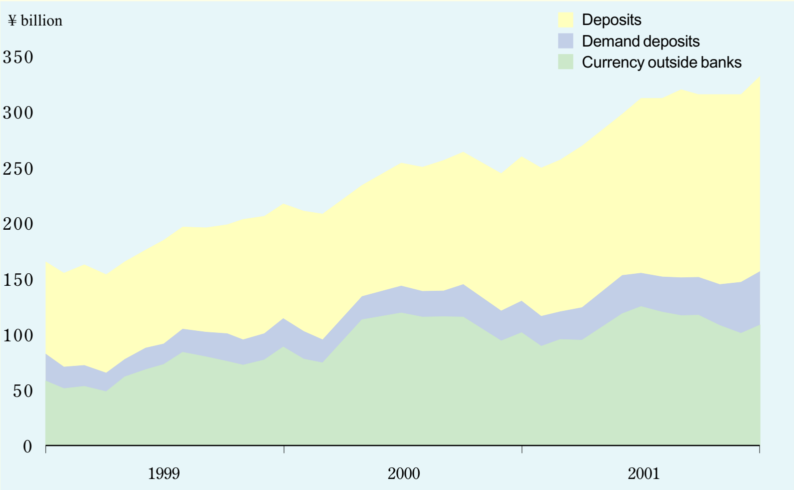


Figure 22. Reserve money

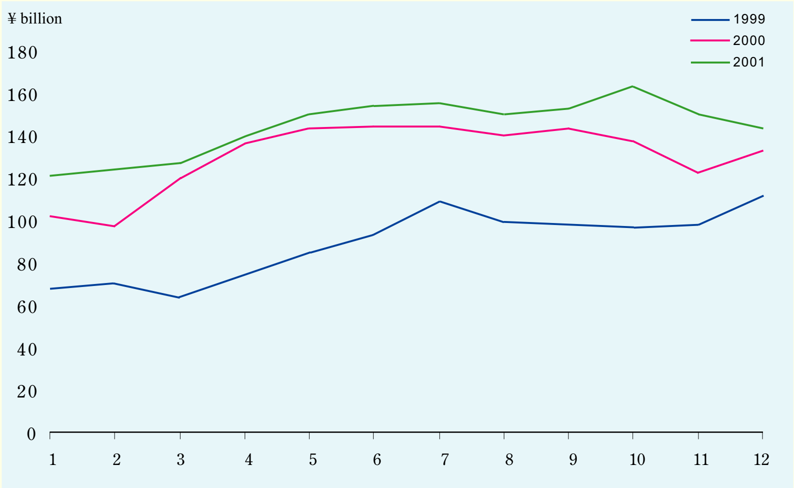
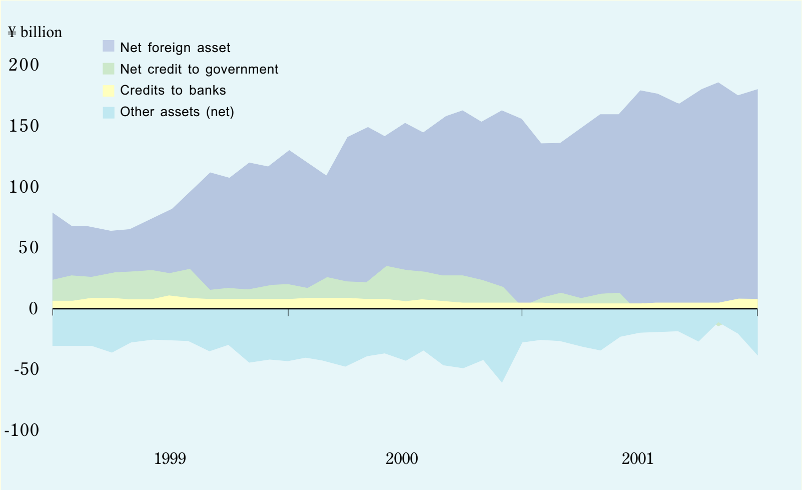


Figure 23. Source development of reserve money



the revised “Regulation of MSE Registration.” Only 20 of the 380 companies were categorized as top level companies.

In the reporting period, MSE registered a total of 342 thousand Government treasury bills worth MNT 42.8 billion and issued 30.0 thousand shares, worth MNT 300.0 million for individuals. In addition, the “New century” 210.0 thousand bonds valued at MNT 2.1 billion was issued by the Building Corporation and was registered and authorized for trading and payment through the MSE.

In 2001, the MSE’s trade turnover reached MNT 33.7 billion. In 2001, MSE held 255 overlapping sales equaling 15.9 million shares, 343.1 thousand government treasury bills, and 120.4 thousand private company bills. Total turnover increased 2.4 times compared with the previous year, due to a boost in Government and company bonds. Thirty percent of the total number of shares sold was state bonds worth MNT 504.1 million.

In the reporting year, the most actively traded securities were as follows: State Department Store (6.6 million), Mongolian Telecommunication (699.2 thousand), Baga nuur (670.9 thousand). And by value: Mongolian Telecommunication (MNT 322.4 million), State Department Store (MNT 259.9 million), and Gobi (MNT 189.7 million).

The first trade in company bonds was held at the MSE on 8 June 2001. This raised awareness of the MSE as a financial source in the capital market for companies. A total of 120.4 thousand company bonds, worth MNT 1.2 billion were sold at 63 sales.

At year end 2001, the MSE’s TOP-75 index stood at 814.02, which exceeded the same indicator for the previous period by 122.27 points. In the reporting period, the highest index of the TOP-75 reached 962.97.

In the reporting year, a total of 633.2 thousand customers (76.6 percent of the total customers) had opened accounts in a central depository system at the MSE. In 2001, a total of 4418 accounts were opened in the central depository system, of which 4173 were made by investment voucher, 225 were new, 9 by entities and 3888 by connection.

The central depository system had 929 customers. The total in-transactions (revenue) were MNT 97.1 billion in 2001. The total in-transactions of the central depository grew by 5 percent compared with last year, due to sales of Government discounted and normal bonds. Regarding out-transactions (expenditure), a total of 2904 customers made MNT 97.8 billion out-transactions, of which MNT 1.7 billion was by cash, MNT 96.1 billion by transfer and MNT 2.0 million by test.

Privatization

State property auctions were held for 1.9 million shares of 10 shareholding companies totaling MNT 742.2 million for the transfer of ownership. According to 2001’s Guidelines on the Privatization of State Property, 6 shareholding companies were privatized for MNT 5.1

Figure 24. Money multiplier

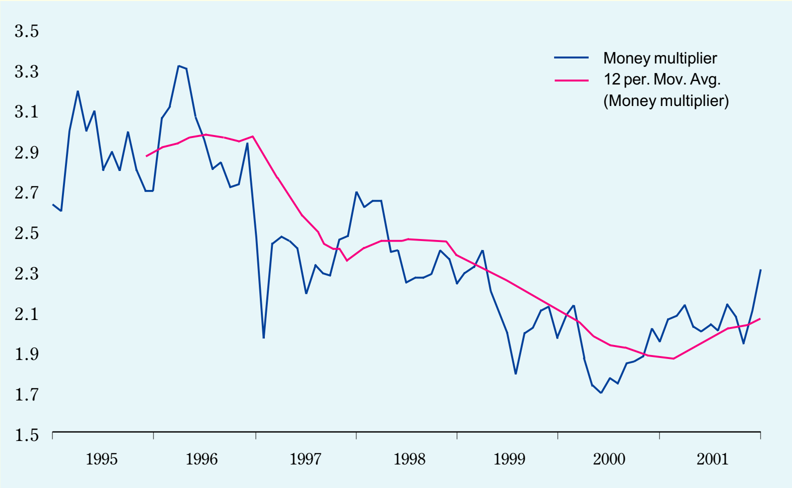


Figure 25. TOP-75 Index

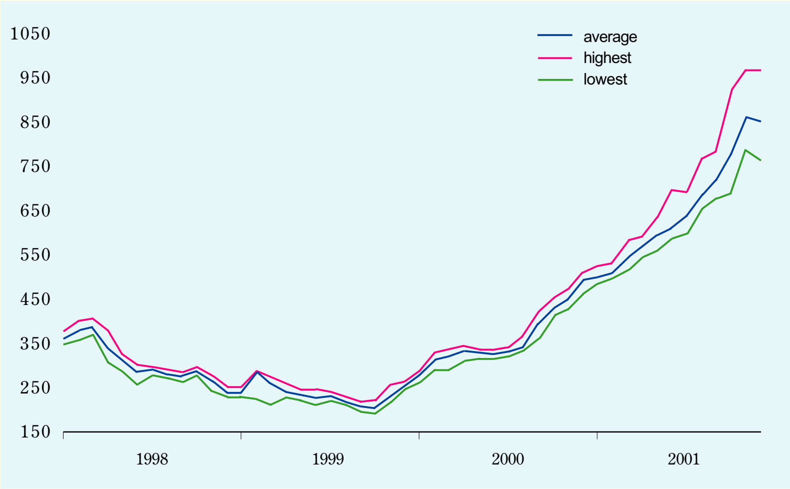
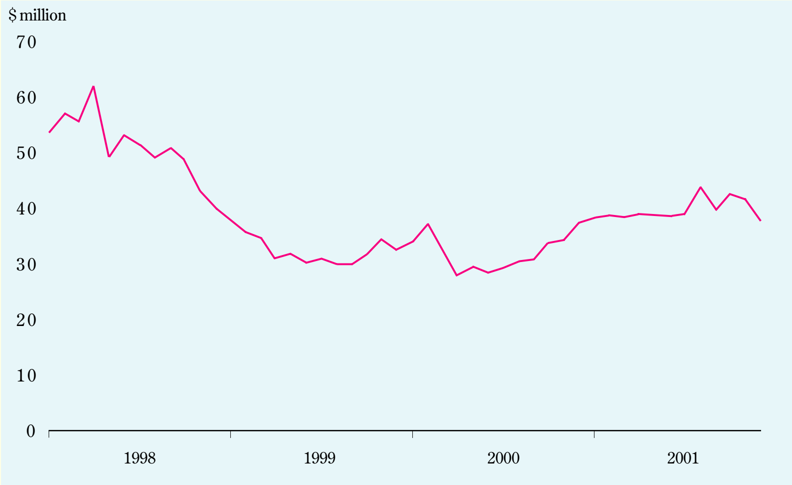


Figure 26. Market capitalization



billion, including APU Vodka Distillery, Monkhjim, Tuulbayan, Hotgor, State Department Store, Erdene Autozam, and an unfinished construction project for a sanatorium in Orkhon aimag. Also Monshil Co., Aziik Shareholding Company, an oil supply station garage in Khovd aimag, and some office construction projects were privatized and generated a total MNT 5.2 billion for the state budget.

As part of the Privatization of Public Utility and Service Program, approved by Government resolution No.159 in 1999, the State Property Committee (SPC) signed a resolution No.123, dated 21 March 2001 and approved a management contract module to work with some public utility and service organizations in aimags and cities. Public utility and service organizations in Selenge, Arkhangai, and Omnogovi aimags started working with the management contract, in accordance with this resolution.

As part of the 1999 Ministry of Enlightenment pilot project for privatization of social services, SPC signed a management contract with the Theatre of Children and Youth. The SPC controlled execution of the contract, implementation of the project, and made some contract amendments. In the scope of the pilot project, theatre property will be transferred upon payments made using a Credit Sale and Purchase contract.

Under government resolution No.198, 339 veterinary and breeding plants in soum and bag districts were privatized in 1999. After privatization a 5-year contract was made with the owners of the veterinary and breeding plants. Adherence to the contracts was jointly audited in 2001 by Aimag Governors, the Ministry of Food and Agriculture, the State Veterinary Office, and the Food Hygiene and Agriculture State Auditors.

The former SPC, known as the Government Property Committee, privatized the following properties using a credit plan:

- Construction of Sport Training Labor Center
- Unfinished construction project of the Scientific Academy
- Five steam boilers in Khentii aimag.

In the area of apartment privatization, a great deal has been done. For instance, recently 50 thousand square meters of apartments held by individuals were privatized. Partial

Table 9. Trading information in 2001

Trading		Securities traded		Value of transaction	
	Number of trading day	thousand of piece	share of total	billions of togrog	share of total
Common stock	255	15877.1	97.2	1.7	5.0
Government bond	24	343.1	2.1	30.8	91.4
Company bond	63	120.4	0.7	1.2	3.6
Total	342	16340.6	100.0	33.7	100.0

Box 5. Role of the Capital Market for Monetary Policy

A financial market consists of money and a capital market. The money market contains short term securities or debt instruments (up to one year). In contrast, the capital market consists of longer maturity debt instruments. Although the instruments of these markets are not the emphasis of this short essay, they are worth noting. Instruments in both markets differ by maturity, risk and consequently yield, but among all debt instruments special attention is drawn to government securities.

There is common belief that the Government will not default on its debt, and therefore the demand on different types of Government securities in both the capital and money markets is high, so investors treat them as low risk instruments. The most important use of these instruments is the opportunity they give investors to diversify their non-market risk, related to other debt instruments. In addition to this, Government securities are used as reliable signals for market conditions. When uncertainty increases, due to increased volatility in prices of other securities, the demand for government securities increases. One important role of Government securities is their role as key instruments for enhancing market relations at the initial stage of both financial and money market development in a developing economy. In this country, Central Bank Bills play a similar role for money market development.

In most countries, participation in the money market is limited. Typical participant in the market comes from commercial banks. So, the money market in reality is a wholesale market for money. Thus the commodity sold here is money and the price for money is cheaper than otherwise. The default risk in the money market is low, probably because of the short maturities on the contracts that are negotiated. A transaction in the money market transfers money from one intermediary to another. Its size and price is the space where monetary policy works. When the central bank injects money in this market it increases the money supply and when it absorbs money from the market the monetary policy is considered tight.

In contrast the capital market serves genuinely for and is open to the public. Products sold in this market vary widely but they cannot be used as a payment instruments. The market attracts public interest to invest because of its tax convention, wide range of efficient flexible investments, and an opportunity for diversification of risk. It is very rare for any central bank to be actively involved in this big market, where many different financial contracts are negotiated. So, the capital market is not a direct space where monetary policy operates. However, it is important enough for consideration from a monetary policy point of view, because of its relevance for achieving a goal of the policy.

The capital market increases the efficiency of monetary policy

Development and stable operations of the capital market is important for monetary policy implementation for two major reasons.

1. The capital market is a part of the monetary policy transmission mechanism.
2. The capital market contributes to financial stability because it provides an alternative for investment.

If there is a change in the money supply and/or in short-term interest rates for monetary policy consideration then on one side it will induce change in the price for financial assets. On the other hand it will create an additional flow of funds between markets. In both cases these shocks stimulate flexible investment opportunity revealing most productive sectors/industries and help reallocate financial resources. Through these adjustments achievements of monetary policy can be achieved. Although this is just one additional channel to transmit a policy effect, when it is used the efficiency of policy is improved substantially. The effect of this channel depends upon development and capitalisation of the capital market, popularity and habitual patterns of use of financial instruments and public intention to invest in the market and the effect Government policy has on deepening the capital market.

Box 5. Role of the Capital Market for Monetary Policy (continue)

The role of the capital market is to channel savings to businesses, creating investment opportunity in the real sector and providing continuous valuation of listed companies. Apart from this, a capital market can provide an opportunity to business entities and individuals to properly invest their liquidity when instability is facing the money market and conditions of banks, non-bank and similar institutions is worsening. When financial intermediation fails, and there is an absence of investment and saving opportunities, the market offsets the deterioration of intermediation, thus reducing the negative impact.

Furthermore, a well functioning capital market may prevent the negative impact described above to expand into a financial crisis. So, enhanced stability of the financial sector ensures successful implementation of monetary policy. Since monetary policy is based on the stable relationships of the monetary side of economy, and if negative shocks to the money market spreads and causes losses this relationship then changes the instruments which may result in unexpected, and perhaps, damaging effects. This is enough reason for the central bank to pay attention to the development of the capital market and to be an active observer of the market.

From the development of the capital market there are some aspects worth noting. The market can be characterised as information intensive, not easy to understand for the general public, and using methods of diversifying risks that require sophisticated technique. Perhaps than, with the development of academic research in this direction and an improvement in information processing, and a dissemination mechanism, market capitalisation increases. However, information is expensive but provides a common good after its disclosure. In other words, when a company invests in private information to increase its profit they are often faced with the situation where other investors follow the same strategy and the impact is that the expected profit is reduced due to the “common good” inefficiency.

However, with an increasing number of participants the common good problem may be reduced. To encourage potential investors to participate, the role of big investors (including institutional investors), who can facilitate information availability, is crucial. History shows institutional investors, such as insurance and pension funds, play the role of stimulators for quality information and have made an important base investment in the information business. On the other hand, with increased availability of quality information, the general public invests in the market more, not only for profitable investment but to seek capital gains.

The participants’ focus on capital gains signal listed companies that their rating and share market value are important performance criterion. Indeed, companies make decisions to increase business equity depending on share price. Because classic economists believed that monetary policy may influence market value of a company (change of Tobin’s q as an example) the capital market plays a crucial role in promoting investment via monetary policy.

* The full version of the paper is available in the Publication section of the Mongolbank website www.mongolbank.mn

privatization of the Ministry of Defense, Trade and Development Bank, Construction Architecture, Public Utility and Service Organization and privately held apartments has been carried out successfully.

4. BANKING SECTOR DEVELOPMENT

4.1.	Banking Sector	58
4.2.	Non-Bank Financial Institutions	64

4. BANKING SECTOR DEVELOPMENT

During the last year the Mongolian banking system has stabilized and the fundamentals for further steady growth are in place. As of the end of 2001, 16 banks and 28 non-bank financial institutions were providing banking services through their 538 offices (105 branches, 419 sub-branches, & 13 cash offices) located in all aimags of the country.

At the aimag and soum level 12 banks have 436 representative offices, which is 65 offices more than last year. Rural offices represent more than 80 percent of all banking offices. During 2000, banks focused on expanding their operations only in aimags with well developed infrastructure, industry and agriculture. But during the last year they have begun opening new branches in Gobi-Sumber, Khovd, and Selenge which indicates there is competitive pressure between banks and a desire to enter new markets. Improvements in the financial condition of Agricultural Bank, derived from implementation of a memorandum of understanding, helped to restore public confidence in the rural area.

During 2001, total assets of all banks increased dramatically and a ratio of Broad Money to GDP, which as an indicator to determine scope of financial intermediation, increased by 4.5 percent to 29.3 percent compared with last year.

Reduction of interest rates in international markets, attendant improvements in the domestic financial market and a rise in the deposit base has been facilitating lending activity of banks.

4.1 Banking Sector

During the last year 4 banks, Inter, Capitron, XACBank and Menatep SP, were granted banking licenses. As a result of this, 16 banks were conducting operations in the banking sector, of which 2 banks were state owned, 4 banks had state participation in their equity funds, and 10 banks were owned by the private sector. As of the end of 2000, 69.9 percent of all deposits, 81.7 percent of all current accounts, and 91 percent of government funds were concentrated in the partial and fully state owned banks. As a result of competitive pressure from private banks these ratios were decreased to 58.6, 77.9, and 89.4 percent respectively thereby increasing the market share of the later.

Total assets increased by 47.4 percent or by MNT 107 billion representing 29.4 percent of GDP. This massive growth was associated with the expansion of current accounts, depos-

Table 10. Total assets (percentage of GDP)

	1996	1997	1998	1999	2000	2001
Total assets (in billions of Togrog)	158.3	196.3	179.6	182.3	225.7	332.7
Percentage of GDP	24.5	23.6	22.0	19.7	21.6	29.4

Figure 27. Broad money M2 (percentage of GDP)

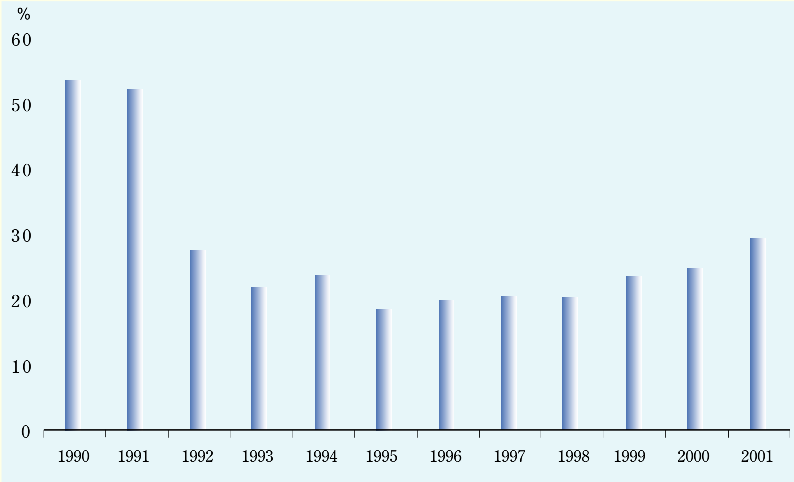


Figure 28. Banking system assets (percentage of GDP)

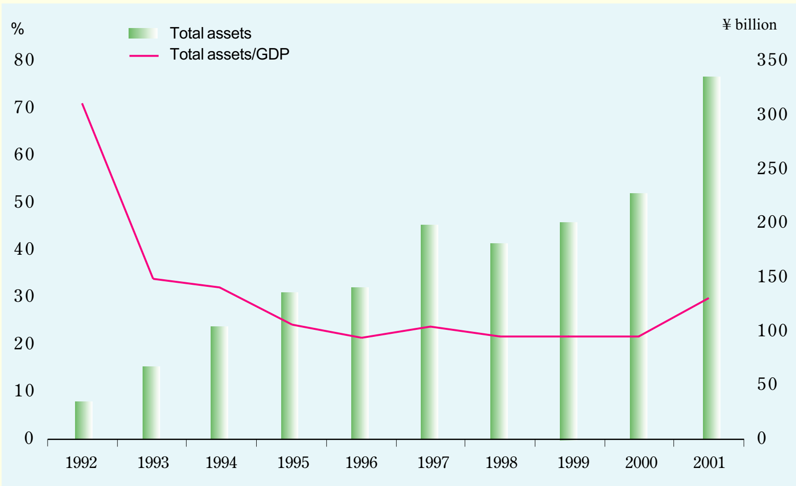


Figure 29. Banking system liabilities (percentage of GDP)

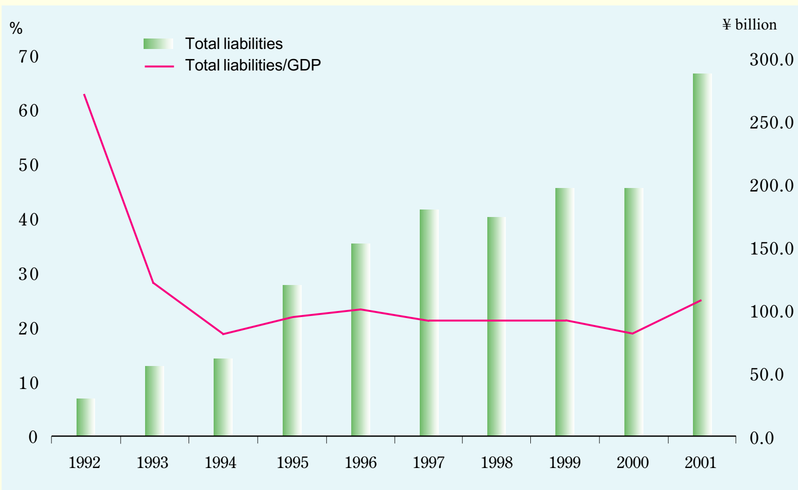


Table 11. Banks' assets

(in percent)

	1996	1997	1998	1999	2000	2001
Reserves	5	7	10	13	14	10.4
Central bank bill	0	10	7	12	10	14.9
Foreign assets	31	34	15	25	24	15.7
Claims on Government	9	18	21	20	18	9.7
Claims on Nonbanks (net)	34	20	33	19	24	37.8
Interbank market assets	2	1	2	2	1	1.1
Other assets	18	10	12	11	9	10.3

its, government funds and equity capital.

Total assets were composed of the following items: 40.6 percent loans, 15.7 percent foreign assets, 15.0 percent BOM bills, 10.4 percent bank reserves, and 9.8 percent claims on the Government. The percentage share of all asset items, except BOM bills, was lower than last year. Balances of assets, including exempt claims on the Government and foreign assets soared, accompanied by a doubling of growth in loans and 2.2 times increase in the BOM bills. Changes in balances of other asset items remained quite stable.

Total loans outstanding reached MNT 135.1 billion, accompanied by an increase in public and private sector lending of 68 percent and 250 percent respectively. This shows the increasing role of banks in financing in the real economy and a deepening of financial intermediation. In other words, during previous years, liquid and foreign assets represented the major share of total assets while the share of domestic credit was less than 25 percent. This picture has changed, as seen by the share of loans at the end of last year, which soared to 40 percent, with a tentative pressure for further rise.

Regardless of the tremendous growth in loans outstanding, BOM bills still remains only a small portion of total assets in the banking system, thereby supporting a liquidity ratio that has stayed above the required minimum and implying the possibility for further increases in financial intermediation through monetary policy instruments.

During 2000, 49 percent of all loans granted were to the industrial sector. But in 2001 this

Table 12. Banks' liabilities

(in percent)

	1996	1997	1998	1999	2000	2001
Current accounts	27	34	30	36	33	30.6
Deposits	30	33	34	42	47	47.1
Other funds	9	4	4	2	1	1.9
Foreign liabilities	6	7	12	5	3	3.1
Deposits of Government	15	19	12	12	13	12.6
Interbank market liabilities	6	2	4	2	1	3.0
Other liabilities	7	2	4	2	1	1.7

Figure 30. Non-performing loans (percentage of loan outstanding)

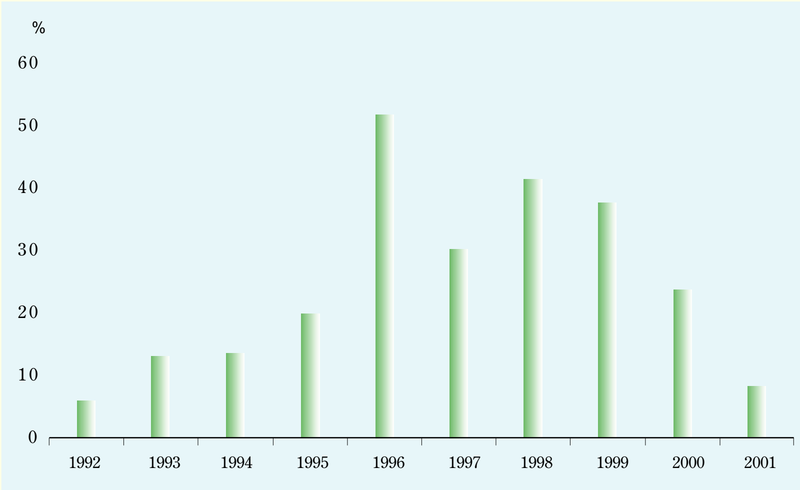


Figure 31. Banking system assets (by structure)

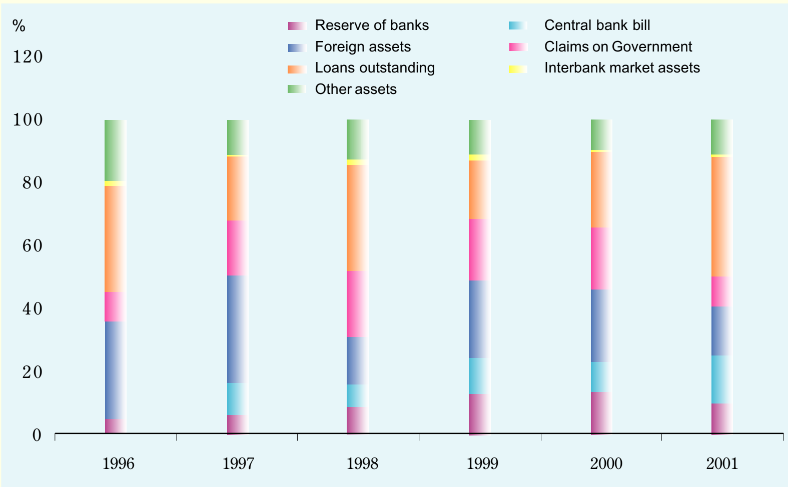


Figure 32. Banking system liabilities (by structure)

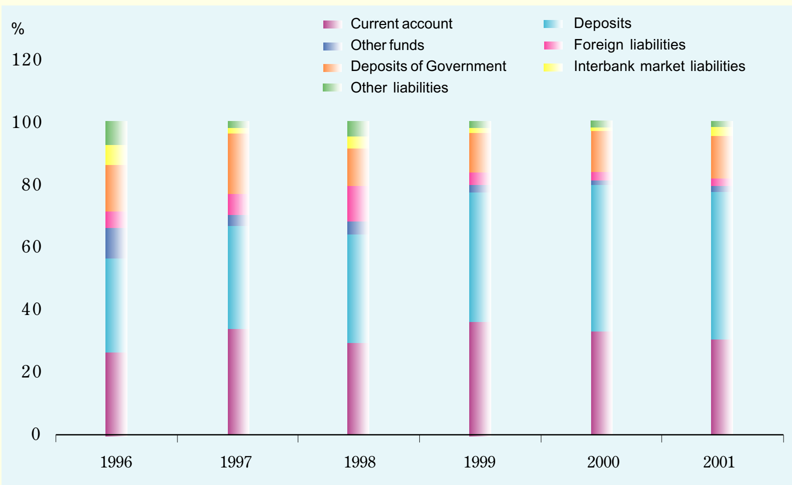


Table 13. Prudential ratios

				2001.12.31
	Total	3 large	4 middle	9 small
Capital adequacy ratio (Total, 10%)	24.6	18.4	17.6	48.6
Capital adequacy ratio (Tier 1, 5%)	21.6	15.3	13.3	45.6
Tier 1 capital/Assets (5%)	15.3	9.9	11.1	35.2
Liquidity ratio (18%)	48.4	53.3	36.6	48.5

percentage changed to 52, with a 2.3 times increase in outstanding loans to MNT 259.2 billion. The share of loans granted to the manufacturing sector increased by 200 basis points or 46 percent of all loans made. In the first half of last year, banks granted loans mainly to transportation and finance companies while during the second half they shifted their lending toward manufacturing, service, health care and educational activities. This is explained by the seasonality inherent to these sectors of the economy, which influence the structure of the banks' lending.

During the current year non-performing loans were reduced by 31.6 percent to MNT 10.9 billion. In 1998, the ratio of non-performing loans to total loans was 34.5 percent, in 1999 - 51.3 percent, and in 2000 - 23.8 percent, while in 2001 it decreased by 15.8 percent to 8.0 percent. Most loans classified as non-performing were granted before 1999-2000. Progress in the recovery of loans has been assisted by improvements in the banks' credit policies and amendments in legislation which have helped mitigate credit risks. For example, amendments in Section 6 of Article 368 of the Civil Code and Article 29.1 of the Law on Deposit Taking, Payment Services and Lending Activities allow bank and non-bank financial institutions to immediately repossess collateral, thus stimulating their operations and increasing investment activities in accordance with market principles. These amendments increased the incentive for borrowers to comply with their credit and lending agreements with banks, thereby increasing the types of property pledged as collateral.

As of the end of 2001, claims of banks on the Government declined 18.9 percent or MNT 7.6 billion to MNT 32.5 billion. These changes, accompanied by a MNT 1.8 billion growth in deferred tax payments, MNT 9.4 billion decline in holdings of Treasury bills, and MNT 0.01 billion reduction of accrued interest on Government securities. During the last year, banks bought 38 billion or 95.7 percent of all of the short term and discounted bills issued by the Government. For example, Trade and Development Bank spent MNT 18.9 billion to buy these bills while Savings, Agricultural and Anod banks purchased MNTs 11.7, 4.3 and 2.5 billion respectively.

During the last year, total liabilities of the banking sector increased by 45.9 percent or MNT 89.8 billion. Contributions to this growth came from current accounts (+41.9 billion), savings (+22.1 billion), government funds (+11.3 billion), foreign liabilities (+3.0 billion) and other assets (+11.5 billion). The structure of assets remained stable compared with the previous year: 47.1 percent savings, 30.6 percent current accounts, 12.6 percent government funds, 3.1 percent foreign liabilities, and 6.6 percent other liabilities.

In conclusion, the sharp growth in demand and time deposits have been mainly invested in loans and BOM bills, thereby indicating a restoration of public confidence in the banking sector and improvements in solvency and liquidity positions of potential borrowers.

During the previous year, due to competitive pressure, banks began to reduce or sometimes even abolish fee and commissions charged for cash withdrawals, wire transfers and other types of banking services. For example, Trade and Development Bank reduced its foreign currency cash withdrawal commission to 0.3 percent, domestic currency cash withdrawal commission to 0.1 percent from 0.3 percent, while Golomt Bank adjusted the aforementioned fees by 0.1 percent to 0.25 percent, and by 0.7 percent to 0.3 percent for FX and MNT payments, respectively. As for wire transfers to foreign banks, TDB and Golomt lowered their fees to 0.3 percent and 0.05 percent respectively. For domestic money transfers, Agricultural Bank charges fell to 0.1 percent, while the Post Bank fee did not exceed MNT 5000.

Regardless of the increases in interest, trading and staff expenses, and shrinkage in fee income, banks managed to increase their annual profits, while the main profitability ratio, ROA, dropped by 0.4 percent due to a sharp expansion in total assets.

In order to mitigate risks, expand operations of banks, diminish the amount of currency outside of banks, increase the scope of financial intermediation, assist stable economic growth through capital injections into the real economy, and strengthen the competitive capacity of domestic banks, the minimum equity capital requirement established by the BOM has been increased to MNT 4 billion. Also, in order to give banks time to raise the necessary capital they were given a delayed date for compliance of first quarter 2004.

During the last year, the inter-bank market for foreign exchange trading totaled USD 17.6 million of which USD 7.7 million were short and USD 9.9 million were long contracts. MNT short crosses were composed of the following trading; USD 3.2 million, GBP 1.03 million,

Table 14. Loan report of banking system

				2001.12.31
	Beginning of year	Loan issuance	Loan Payment	Outstanding
Total loan	63.8	259.2	191.9	127.5
Manufacturing	31.5	134.6	96.1	69.2
Processing	15.1	57.8	32.8	39.6
Agricultural	1.7	3.2	1.7	3.0
Construction	2.7	8.7	4.9	6.5
Mining and quarrying	11.9	64.9	56.7	20.0
Non-manufacturing	32.3	124.6	95.8	58.3
Social and private service	28.1	112.0	84.2	52.9
Immovable assets and business service	0.6	4.7	1.9	3.4
Transportation and communication	2.8	4.6	6.7	1.0
Health and education	0.2	0.8	0.2	0.7
Finance, credit organization	0.6	2.5	2.8	0.3

EUR 1.0 million, DEM 0.7 million, JPY 205.3 million, while MNT long crosses were structured as: USD 8.5 million, GBP 0.045 million, EUR 0.065 million, DEM 0.265, JPY 155.8 million.

The MNT/USD exchange rate was stable in the inter-bank market throughout the year and banks traded for their foreign exchange needs only.

4.2 Non-Bank Financial Institutions

One of the most positive changes in the financial sector was the expansion of NBFI activities. During 1999, only 2 NBFIs were in operation and in 2000 only 7, while in 2001 this number soared to 28 organizations.

The assets of these NBFIs totaled MNT 23 billion, 64 percent of which belonged to NBFIs with foreign direct investment. This is a clear indication of asset growth fueled by “newcomers,” and the effectiveness of the lending activities of these financial institutions.

Assets were composed of loans (56 percent), reserves (24 percent), and other assets (12 percent), with the majority of these financial institutions specializing in lending. Their non-performing loans represented only 0.3 percent of total loans or MNT 35 million.

Table 15. Non-bank financial institutions’ main indicators

	3/31/01	6/30/01	9/30/01	12/31/01
Capital adequacy ration	35.9	74.9	97.1	133.4
Liquidity ratio	0.8	1.4	1	1.8
Loans/Total assets	34.6	51.3	58	55.8
Non-performing loans/Total loans	1.8	0.8	0.7	0.3
Reserves for loan losses/Total loans	1.5	1.2	0.7	1
Total assets (millions of togrog)	5194.9	6031.9	7296.2	23391.9
Net profit (millions of togrog)	-72.3	-58.7	112.5	131.6

Box 9. Developments in the Banking System (1991-2001)

Before 1990, there was a mono-banking system, where all banking activities, such as the distribution of credit and their collections, were implemented only according to a plan. At the end of 1989 and in the beginning of 1990 the first commercial bank was set up. But, problems which occurred in the first period of transition into a market system included the absence of a legislative regulatory environment; absence of a performance based commercial bank accounting system; absence of an inter-bank clearing and settlement system; and a lack of specialists capable of working in a market system. These problems prevented the banking system from developing properly.

In 1991, the State Lower Chamber (State Baga Hural) approved the new banking law, and a legal foundation for development of a two-tier banking system was set up. Since then, regulation of prices, foreign exchange rates and the money supply; implementation of state monetary policies, inter-bank settlements and mediation in Government settlements; and supervision and controlling of commercial bank activities in a market economy have become new primary objectives of Bank of Mongolia. The legal system allowed the above objectives to be implemented; knowledge of employees about the market economy; willingness of the public and banks to accept the central bank's role; and financial and liquidity problems of the newly established commercial banks were fully reflected in Bank of Mongolia's activities. For instance, the fact that commercial banks issued loans without any control can be confirmed by the following figures: outstanding loans at banks exceeded gross money in 1990 by 45.6 percent, in 1991 by 29.6 percent, and 1992 by 46.5 percent. To resolve this impropriety, the central bank began to extend loans to commercial banks under the requirement of settlement prior to clearing. Thus, the first credit to banks by the central bank, a monetary policy instrument now, was set. The nature of the clearing loan, the first monetary policy instrument, was short term, with a high rate of interest and was aimed at solving temporary difficulties with liquidity faced by banks and to smoothly settle payments. But, because banks used this instrument to accommodate an increasing credit demand and took the loans at will, the total money supply was caused to increase.

Before the Banking law came into affect, TDB and ITI Banks were established. During 1991-1992, due to a lack of appropriate monetary instruments available to Bank of Mongolia for the regulation of money, monetary management failed. This was followed by a loss in gold dealing, and the central bank's reputation fell among the public and banks, leading to an increase in the gross money supply. In 1991, the increase was up to 76 percent, and in 1992 up to 31.6 percent. The consumer price index (CPI) increased in 1992 325 percent and 183 percent in 1993.

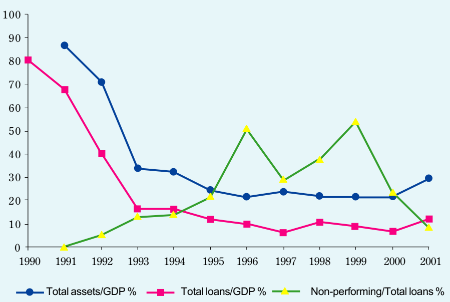
Banks with capital deficits like ITI, Mongol Khorshoo were always dependent on Bank of Mongolia. An inter-bank clearing, co-redeemable, settlement system was first introduced in July 1992. The technical ability to separate and enable the ownership of inter-bank resources and to control the flow of funds between banks was established for the first time. Then, from October 1992, the most common and direct control instrument of Bank of Mongolia was the setting of commercial bank lending limits and from the end of that year, reserve requirements were set for commercial banks. Also, in order to keep the real interest rate at a positive level and protect savings from depreciation, a minimum interest rate for savings was set and controlled by Bank of Mongolia starting in November 1992 and repealed in 1996. Unfortunately, Mongol Khorshoo and Selenge Banks, instead of collecting funds from the public, weakened their operation by taking clearing loans from the central bank and paying the high interest costs, in order to replenish their capital deficit. Thus, these banks were merged with other banks and this negatively influenced the merged institutions financial solvency. The merging of Selenge and Mongol Khorshoo Banks to other banks was the first attempt at bank restructuring, and was made in 1994. The clearing loan, which was given to banks to re-finance their capital shortages, was stopped completely in 1996. Simultaneously, due to an absence of a legal framework for governing and regulating the relationship between the Government and Bank of Mongolia, as well as the Government and commercial banks, there were some cases of Government intervention in banking activities. For instance, by Government resolutions and requests, Bank of Mongolia extended a large amount of loans through the Government and commercial banks to enterprises for the purpose of supporting industry and investment, preparing power stations for the winter, and autumn harvesting and spring cultivation (plantation). This was the main factor in the increase in the money supply, as well as negatively influencing bank liquidity. Non-performing loans, which were issued in this way, surged up to 12 times 1992 levels and reached 20 percent of the outstanding credit amount by the end 1995. A consequence of this situation was that it allowed banks and lenders to escape responsibility for the collection of the non-performing loans. The legal environment did not help ensure recovery of credits, encourage borrowers to obey credit agreement obligations and collecting loans by confiscation of loan mortgages was rather weak. Before the new Civil Code was established in 1995, legal acts ensuring the regulation of legislative relationships on credit issues, had limited abilities, and provided few regulations and procedures for Bank of Mongolia and commercial banks.

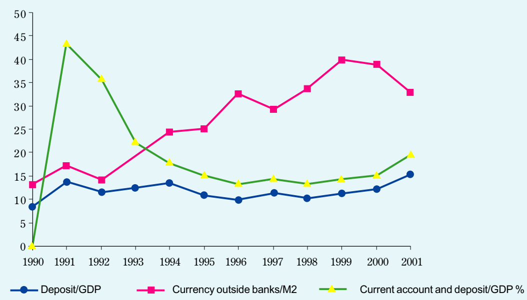
Box 6. Developments in the Banking System (1991-2001) (continue)

The above factors led prices to increase to their highest level and the liquidity of the banking system to loosen seriously. However, Bank of Mongolia implemented important measures by forming and using direct and indirect controlling instruments such as setting limits in commercial bank lending, setting a minimum rate on bank reserve requirements, setting and controlling the adequacy of bank ratios, setting a minimum savings account interest rate, issuing central bank bills, liberalizing the foreign exchange rate, improving the inter-bank settlement system, and changing and upgrading the accounting system of banks.

Since 1995, the Government of Mongolia and Bank of Mongolia have implemented, with the assistance of international financial institutions, a program for strengthening and restructuring the banking system. This program was aimed at improving the legal environment; increasing the effectiveness of state monetary policy; enhancing liquidity, management, organisation and the structure of activities of banks; regulating credit and joint management of banks; and reducing Government intervention in the banking sector. Within this framework, the following policy oriented measures were taken during last 5-6 years:

Firstly, in compliance with the newly established Civil Code, the “central bank (Bank of Mongolia) law,” the “banking law” and the “law on savings, settlements and bank credit activities” were approved. Measures were taken in 1996 to pay off, by Government bonds, unpaid loans, given through commercial banks under Government resolution. It was the result of the Government interference to bank activities. Moreover, measures were taken to come to an agreement and to resolve issues related to receivables outstanding from credits issued by Bank of Mongolia on behalf of the Government without any MNT backups, to partially recover them, to re-stimulate the relationship between Bank of Mongolia and the Government on a contract basis and to ensure the consolidation of the budget and monetary policy. The precondition for price stabilization became an improvement in the efficiency of monetary policy instruments to regulate the money supply, and fixing the amount





and interest rate of central bank bills, in compliance with the money supply in that period. The accounting systems of banks were revised to comply with international accounting standards; the frequency and quality of supervision on commercial bank activities were improved; internationally accepted criteria was established; and banking activities were evaluated.Managers of banks like Central Asia, Mongol Business, Reconstruction, ITI, Ediin Tenger, Auto-Road, and Export-Import issued credits and credit guarantees without proper analysis and operated without an internal audit system. Bank of Mongolia periodically took measures to improve financial centralization; to expand the ability to increase credit in the economy; and to improve the reputation of local banks with foreigners, by increasing the requirement for banks paid up capital several times. Besides these measures, major steps have been taken to assist the recovery of the banking system by liquidating banks that were financial insolvent and illiquid, experiencing serious delays in big settlements, and that had large non-performing loan portfolios. In 1996 and 1998 bank restructuring was strenghthened with the creation of the Mongolian Asset Recovery Agency established in 1996, with the bank failures of Ard, Daatgal, ITI and Reconstruction Banks. As a result of monetary policy, which was implemented over the last few years, public confidence in the banking system has grown, liquidity of banks has improved, savings deposits and loans reached their highest levels in last 10 years. An important role is played by non-bank financial institutions in expanding financial intermediation in the economy and in providing funds to small and medium enterprises.

Box 6. Developments in the Banking System (1991-2001) (continue)

As of year end, 25 non-bank financial institutions were operating in Mongolia, with the first non-bank financial institution established in 1999. The total assets of these institutions were MNT 23.4 billion and loans were a total of MNT 13.1 billion as of the end of 2001. The share of NBFI assets in the banking system has grown from 1 percent at the end of 2000 to 6.9 percent at the end of 2001. Total assets of the banking system have grown an average of 35.1 percent per year from 1999 to 2001 and have reached MNT 332.7 billion by the end of 2001. When compared with preceding years, the amount of deposits increased 33.8 percent, savings 45.2 percent, and loans have doubled, while the percentage of non-performing loans declined by 31.6 percent by the end of 2001. The solvency of banks has improved as the sufficiency of paid in capital of the banks reached 24.6 percent, exceeding the required 10 percent, and the liquidity ratio reached 48.5 percent, well exceeding the required 18 percent.

5. CENTRAL BANK ACTIVITIES

5.1.	Monetary Policy	72
5.2.	Foreign Exchange Policy and Reserve Management	83
5.3.	Financial Supervision	84
5.4.	Other Activities	92

ORGANIZATION CHART OF THE BANK OF MONGOLIA

- Governor
  - First Deputy Governor
  - Deputy Governor
  - Board of Directors
    - Administration Department
      - Legal Division
      - Service Division
    - Monetary Policy and Research Department
      - Monetary Policy Division
      - Research Division
      - Banknote Division
        - Banknote Destruction Unit
    - Internal Audit Department
    - International Department
      - Reserve Management Unit
      - Foreign Relation Unit
      - Balance of Payment and Research Unit
    - Supervision Department
      - Supervision Division
      - Banking Division
      - Policy Regulation Division
    - Accounting and Information Technology Department
      - Domestic Settlement Unit
      - Foreign Settlement Unit
      - Interbank Settlement Unit
      - Research Unit
      - Information Technology Division
    - Branches (21)
    - Bank Trainning Center

GOVERNORS AND DIRECTORS OF THE BANK OF MONGOLIA

Governor O.Chuluunbat

First Deputy Governor A.Batsukh

Director of Administration Department L.Mandal

Director of Monetary Policy and Research Department B.Enhkhuyag

Director of Internal Audit Department Ts.Tsolmon

Director of Accounting and Information Technology Department B.Lkhagvasuren

Director of Supervision Department L.Chimgee

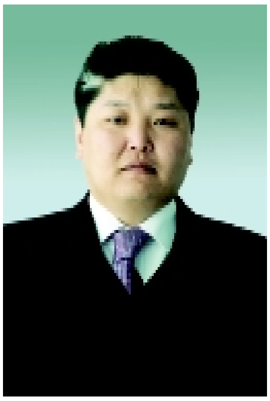
Director of International Department Ts.Odongua

Director of Legal Division G.Erdenebayar

Director of Service Division J.Khaltar

Assistant to Governor, Chief Economist D.Enkhjargal

Director of Reserve Management Unit G.Tomorbaatar



Director of Monetary Policy D.Boldbaatar

Director of Research Division N.Amar

Director of Banknote Division T.Khaltar

Director of Information Technology Division J.Tsogtsanaa

Director of Supervision Division D.Ganbat

Director of Policy Regulation Division J.Ganbaatar

Director of Banking Division T.Ariuntungalag

5. CENTRAL BANK ACTIVITIES

Monetary policy in the financial year was specifically designed and conducted to clear up the crisis in previous years' banking, awaken and deepen financial intermediation, encourage the adequate enlargement of bank liabilities and the expansion of loan portfolios. In order to implement 2001's State Monetary Policy Guidelines, the Bank of Mongolia's policy was aimed at and its activities focused on continuously maintaining price stability and promoting economic growth. Thus, it carried out several policy measures designed to maintain a low inflation rate, allow a deepening of financial intermediation and increase the effectiveness of the non-banking financial system, etc.

For the purpose of expanding BOM's responsibilities and liabilities on external and domestic financial markets, improving its reputation, and maintaining the proper capital structure, the Parliament approved, on December 2001, a Capital level at MNT 5 Billion.

5.1 Monetary Policy

In 2001, the task of indirectly influencing the level of lending and deposit rates for the whole banking system was accomplished by keeping interest rates positive in real terms and conducting a unified interest rate policy through the central bank bill rate, the most flexible monetary policy instrument at BOM.

Banking operations have stabilized and the sector's cash reserve has continually increased during past years. Bank reserves consist of available cash reserves at the Bank of Mongolia and each bank's cash in-vault. The outstanding balance of the central bank's current account shows the size of the non-cash inter-bank payment capacity. It is also the reserve banks can use for lending when a particular bank has an excess reserve after applying BOM's reserve requirement. The cash in-vault is the cash reserve available for customer transactions. Banks work to keep the amount of cash in-vault at the minimum required to meet customer requests and convert the rest of their liquidity into interest earning investments, since cash in-vault does not bring any interest income to the bank.

The dominant feature of this year was the banks' use of their current accounts at the central bank, especially in comparison to previous years. When looking at the quarterly average of the residual sum of the bank's current accounts at the Central Bank during the past 3 years, there is a clear trend for the volume of their non-cash reserve to grow at the beginning of the year and decrease in the 3rd Quarter.

There was a considerable expansion in the balances of banks' current accounts with the central bank during the 1st Quarter of the reporting year. These were 93.7 percent higher than the same quarter of the previous year and 156 percent higher than the average of the previous 2 years. In the 2nd Quarter it increased by 122.1 percent from the previous year's same Quarter and 196.3 percent from the average of the last 2 years. Regarding the 3rd

Quarter, these accounts increased 46.1 and 79.1 percent and in the 4th Quarter by 70 and 118.5 percent respectively. During the financial year, the daily average amount of banks' current account balances at the central bank was MNT 23.1 million, which was 79.3 percent higher or MNT 10.2 million more than that of the previous year.

Throughout 2001, the volume of banks' cash in-vault also increased continuously and during the 1st Quarter increased by 35 percent from the same period of the previous year and 45.8 percent from the average of the last 2 years. The 2nd Quarter shows 30.1 and 60.7 percent growth, for the 3rd Quarter 402 and 57.8 percent and for the 4th Quarter 47.4 and 67.7 percent growth accordingly. As a whole, the system's annual average of banks' cash in-vault was MNT 7.7 million, which is MNT 2.1 million more and 38.4 percent higher than the average of the previous year.

From the above-mentioned we can see a sharp increase in the banks' cash reserves and non-cash payments. In other words, the expansion of banks' current account balances with the central bank has eliminated the payment delays in bank clearings, which were common in the first half of the 1990s.

During the financial reporting year, the size of banks' liabilities increased 60 percent, which led to an expansion of their loan portfolios to the real sector by 100 percent. However, this may cause the boundary of the liquid customers to shorten. An ineffective accumulation of excess reserves demonstrates the lack of available short term financial instruments for the banks and this inadequacy diminishes their ability to properly manage their assets.

Required Reserve

Bank of Mongolia requires the banks to maintain a portion of their deposit liabilities as a deposit reserve at the central bank and monitors compliance of this requirement on a daily basis. Despite being a traditional instrument of monetary policy, periodically adjusting the amount of required reserves still has not been actively used for management of the money supply. Improving the effectiveness of this instrument should affect the liquidity and capacity of the banking sector.

According to the Regulation for Defining and Controlling Reserve Requirements, calculation of the required reserve for each bank should be executed twice per month, on the basis of which penalties and remunerations to each bank are made throughout the year. In 2001, a total of MNT 350.1 million was paid as remuneration to complying banks and MNT 10.5 million of penalties were imposed.

Overall, the required reserves for the banking system were met every month and the daily average balance of these current accounts with the Bank of Mongolia was MNT 21.3 billion, 9.3 billion of which was an excess reserve. Issuing central bank bills as they were needed solved this excess reserve position.

In 2001, the reserve requirement was 14 percent, which was deemed satisfactory and therefore remained unchanged for the year.

Central Bank Bills

For Bank of Mongolia, in 2001 there was a focus on conducting policy that promoted, as much as possible, financial intermediation that is more comprehensive, by being flexible in the coordination of the issuance of central bank bills.

The monthly average amount of bills sold during the year was MNT 27.8 billion. The largest amount of 41.4 billion was sold in December, while the smallest amount, of 18 billion, was sold in March. The annual weighted average rate of central bank bills as of the end of 2000 was 8.65 percent, and was 8.6 percent at the end of 2001, which was only a 0.05 percent change for the year. In 2000, the Bank of Mongolia paid a total of MNT 3 billion in interest for bills sold, and in the current financial year a total of 2.8 billion was paid. The 3-month bill was sold the most frequently.

In order to develop the money market and make the trade of central bank bills more efficient, the following three amendments were made in 2001, to the Regulation on Central Bank Bills.

- Central bank bills should be purchased at a discounted value and sold back to the central bank at its face value at maturity. As a result, interest can be taken into income immediately and the interest payment will not have to be executed prematurely by the Bank of Mongolia;

- The previous scheme required that each sale had one rate for all banks participating in a particular purchase. This scheme was changed so that every bank can purchase at its own bid price. Currently, there is an extensive amount of excess reserve, causing this modification, which also eliminated the declining interest rates being bid at the auctions – often at the cut-off-rate. Moreover, the announced rate of a particular auction should be a weighted average of all of the successful bid rates, now that every bank's bid rate is different;

- Once the auction is executed and a particular bank has made a deal with the central bank, the bank must purchase the bill without refusal or rejection, based on the preceding principle. The purpose of this rule was to promote the development of an inter-bank market. When a bank has a short term shortage in liquidity or needs cash to comply with the reserve requirement, they can go to the inter-bank market or may apply to the Bank of Mongolia for a loan using their bills as collateral, rather than selling the bill back prematurely.

- For the purpose of developing the inter-bank market and giving banks an opportunity to properly manage their short-term liquidity position, repurchase of 7 and 14 days bills prematurely was prohibited. Bills with maturities of more than 14 days may be sold back to the Bank of Mongolia prematurely, at a repurchase value set by Bank of Mongolia.

Figure 33. Changes of net foreign assets and domestic credit

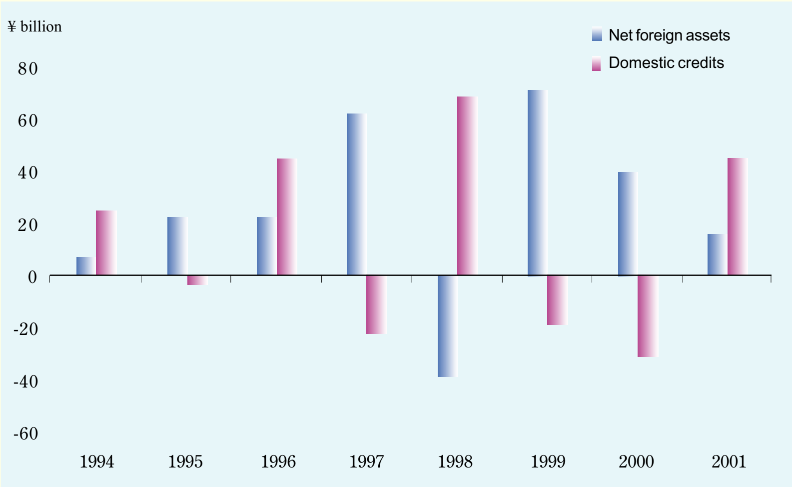


Figure 34. Reserve money and inflation

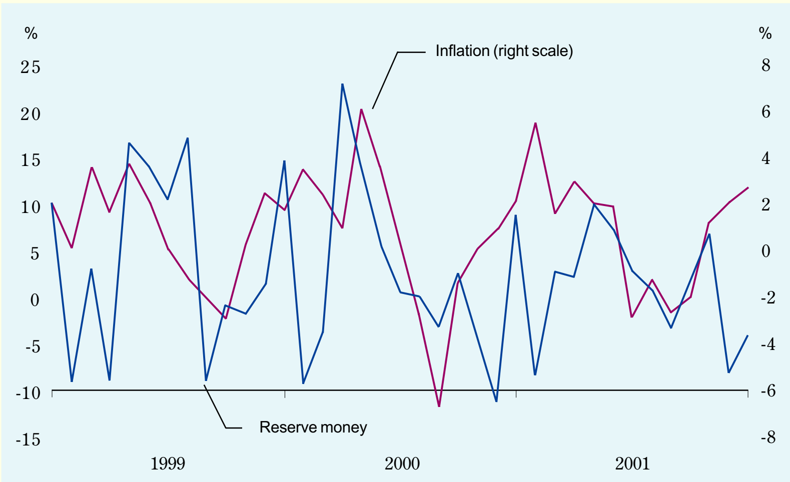
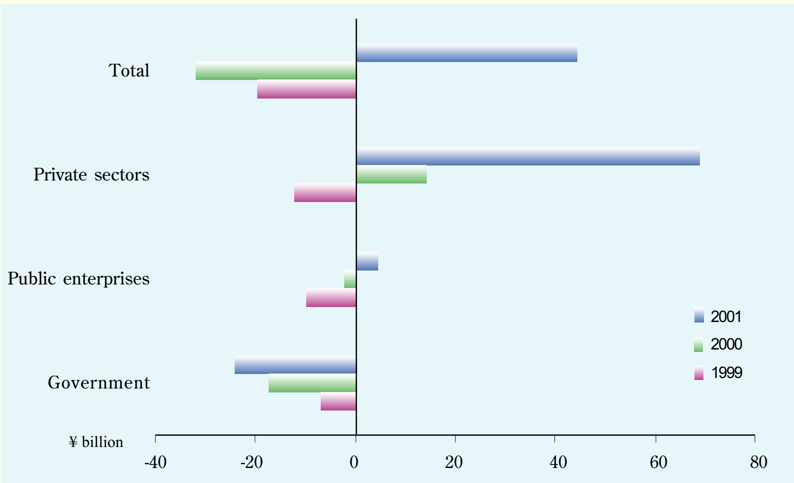


Figure 35. Changes of domestic credit (by sector)



Throughout the financial year a total of 99 bill auctions were held for a total amount of MNT 690 billion, from which 663 billion of bills were sold. There were 54 deals on the secondary market for the amount of MNT 51 billion. If these figures are compared with the preceding period, the volume of bills sold increased by 19.2 percent and the volume of bills traded on the secondary market increased by 53.7 percent.

During the financial year, inter-bank trading of central bank bills was active and played a substantial role in reserve management. Within the banking system, MNT 61.1 billion of bills that had not matured were sold at 68 trades and MNT 60.9 billion in bills were purchased in 66 trades. Mainly, Anod, Golomt, Savings, Trade and Development, Agricultural, Innovation and Post Banks actively participated in the above mentioned deals, while Erel, Inter, Zoos, Credit, Transport Development and Ulaanbaatar City Banks did not participate at all.

Each bank’s participation in inter-bank trading was as follows: Anod bank sold MNT 12.7 billion bills, which represented 21 percent of the total bills sold. Golomt bank sold MNT 8.03 billion bills or 13 percent of the total bills sold and purchased MNT 6.6 billion bills or 11 percent of the total. Savings Bank sold central bank bills in the amount of MNT 15.4 billion or 25 percent of the total bills sold and purchased MNT 4.4 billion bills or 7 percent of the total. Trade and Development bank sold MNT 4.5 billion of bills or 7 percent of the total and purchased MNT 25.1 billion of bills or 41 percent of the total purchased. Agricultural Bank sold MNT 19.2 billion or 31 percent of the total bills sold and purchased MNT 25.1 billion or 41 percent of the total bills purchased. Innovation Bank sold MNT 150 million or 0.2 percent of the total. Post Bank purchased MNT 1.2 billion or 2 percent of the total bills purchased respectively.

Limits on Credit to Non-Banks

For the purpose of preventing problem banks from investing too heavily in higher risk assets that later cause liquidity problems and payment delays, credit ceilings were imposed. Banks which did not comply with the reserve requirement or prudential ratios and had other restrictions on their operations are required to maintain their credit portfolios below these ceilings. In 2001, the Bank of Mongolia continued to use this instrument and a total of MNT 2.8 million was collected from the banks which violated their limit.

Inter-Bank Credit

As a result of excess reserves Golomt, Savings, Erel, Inter and Transport Development Banks did not borrow from the money market during the reporting year. The three main suppliers of funds are Agricultural Bank, with MNT 3.8 billion (39 percent of the total amount lent), Trade and Development Bank, with 2.9 billion (30 percent), and Savings Bank, with MNT 1.5 billion (15 percent). Innovation Bank borrowed MNT 5.4 billion from the inter-bank market, which was 55 percent of the total amount borrowed. Ulaanbaatar City Bank borrowed MNT 2.3 billion (23 percent) and Anod Bank, MNT 2 billion (20 percent). In 2001 a total of MNT 9.8 billion was loaned or borrowed within the system, with maturities of

Figure 36. Central bank bills and its interest rate

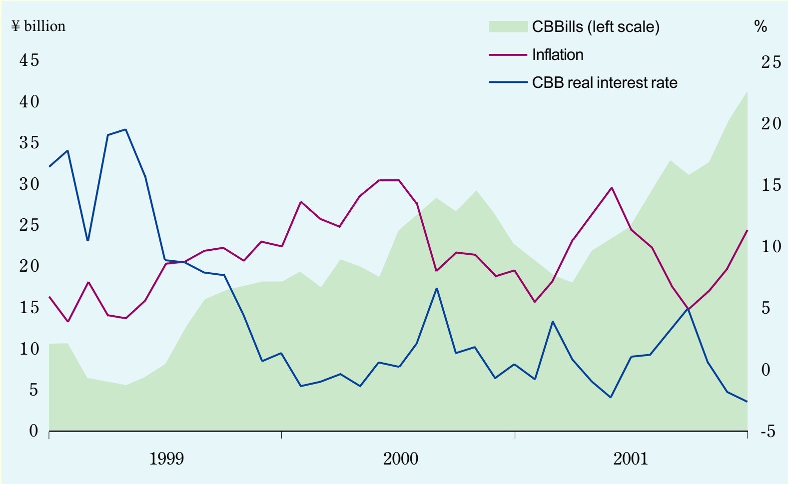


Figure 37. Changes in money supply (by sources)

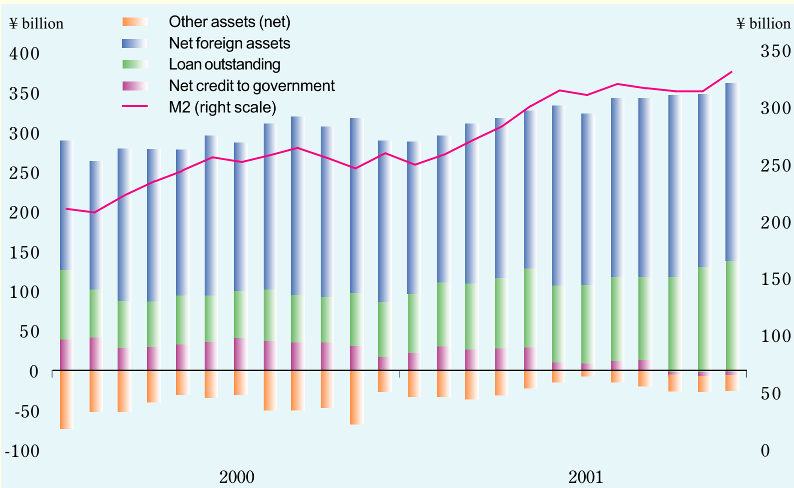
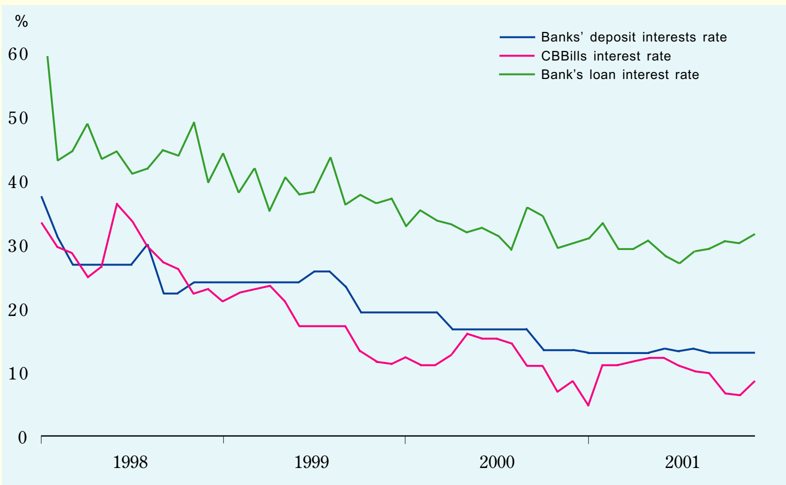


Figure 38. Interest rate



overnight to three months. The interest rate varied from 10.8 to 29.1 per annum. Overnight loans totaled MNT 5.1 billion, which represented 48 percent of the total.

Overnight Loans

In an effort to give banks more flexibility in the management of their reserves, the Bank of Mongolia initiated the development of an overnight market in 2001. Banks tend to keep reserves higher than required, when current account balances at the central bank are volatile. Now, they have an opportunity to cover their short-term liquidity deficit or increase their profit by locating the excess reserve efficiently.

An overnight loan is defined as lending or borrowing among banks or with the BOM, as the last transaction of the working day and the first transaction of the following working day. For the borrower, an overnight loan can be used for compliance with the reserve requirement, in less than 24 hours, except weekends and public holidays. When the bank (the borrower) pays interest on the borrowing that is less than the penalty for violating the reserve requirement, than the bank benefits from overnight borrowing. The other use of this tool is when the cost of the overnight loan is cheaper than selling Central Bank Bills back to BOM or selling it at the secondary market, and the Borrower is better off choosing this option.

At present, in order to smooth out the market operation of this new loan, the Bank of Mongolia is involved as an intermediary (broker) between banks by providing information on the demand and supply of funds. In the future, when market operations have stabilized, the Bank of Mongolia's role can be changed.

After signing the General Agreement on the Overnight Loan the banks loaned and borrowed a total of MNT 4.8 billion, while MNT 300 million was loaned by the Bank of Mongolia.

Repo Agreement

Under the approach of indirect management of the money supply by the Bank of Mongolia, it has been investigating and testing an adoption of new and more efficient instruments. One example is the repo agreement, the most popular monetary policy instrument in a number of countries. The repo agreement is a contract in money market securities (usually Government securities) to buy and sell at a later date, which includes negotiation on terms and conditions of both transactions at the same time. If BOM sells a security the money supply is reduced or in the case of reverse repo it is increased.

In the current year, BOM experimented with three repo transactions totaling MNT 3.5 billion. Further research is being made on improvements to general conditions, accounting and settlement on repo transactions.

Figure 39. Central bank bill and Government bond's weighted average interest rate in 2001

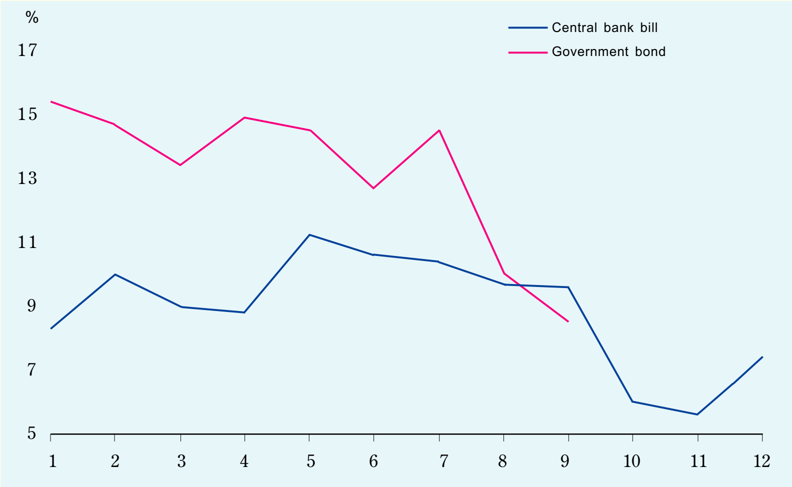


Figure 40. Reserves of banks

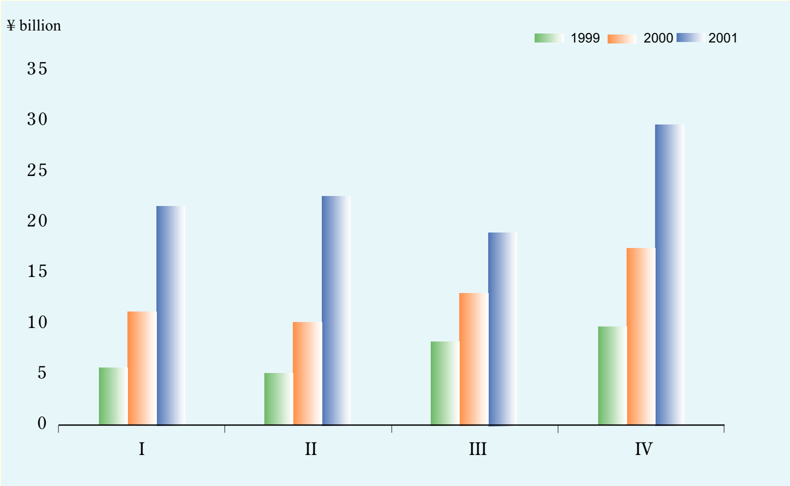
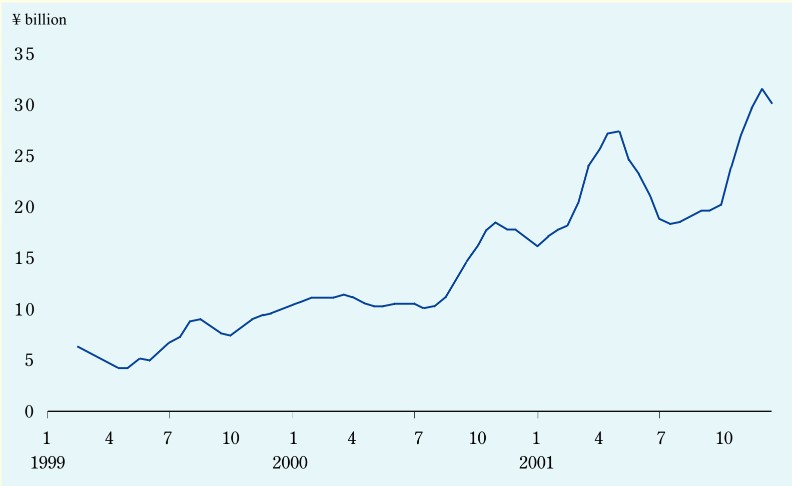


Figure 41. Current accounts of banks with the Bank Mongolia (2 month moving average)



On-Lending Activities

In 2001, implementation of the following two different projects, funded by international financial institutions continued and BOM, as an executing agent, on-lent funds to participating commercial banks:

- The export oriented Small and Medium Sized Enterprise Credit and the Financial Sector Development project governed by the Agreement between Governments of Mongolia and Federal Republic of Germany. The project size is DEM10 million. Under this project MNT 3.1 billion was on-lent to Trade and Development Bank and Mongol Post Bank. These loans are available to the private sector only.
- The Employment Generation Project funded by the ADB. Four banks participated in the project. A total of MNT 1.9 billion was delivered to 224 business entities and 1189 jobs were created within the framework of this project.

Net Credit to the Government

The net credit of the Government at the end of 2001 was MNT 6.9 billion, with credit from the banking system including BOM of MNT 46 billion, and deposits of MNT 52.9 billion. The net credit declined, due to both repayment of debt and an increase in deposits. As a result of cooperation between BOM and MOFE, the accumulated debt of Government bonds for Bank Restructuring were reduced MNT 13.5 billion, of which 10.2 was held by BOM and 3.3 was held by the Reconstruction Bank. Government deposits increased through income from program loans.

In connection with the liquidation of Reconstruction Bank, a contract on Repayment of Transferred Bonds between the BOM and MOFE was concluded in February 2001. According to this contract the payment issues arising from the Bank Restructuring Bonds from the liquidation of the Reconstruction Bank were resolved by BOM purchasing Bank Restructuring Bonds in the amount of MNT 3.3 billion. Of the total amount, 1.7 billion was

Table 16. The Bank of Mongolia's claims on government (millions of togrog)

	2000.12.31	2001.12.31	Paid (reduction -)
Bank restructuring bond	27,140.3	13,570.4	-13,569.9
Of which:			
a/ The Bank of Mongolia	19,611.6	9,373.0	-10,238.6
b/ Receiver of Reconstruction bank	3,328.7	0.0	-3,328.7
c/ Agricultural bank	4,200.0	4,197.4	-2.6
Claims on government (off balance):			
Guarantee to De La Rue International in UK on behalf of government	1,432.3	479.7	-952.6
Total	28,572.6	14,050.1	-14,522.5

Box 7. Survey of the Allocation of Savings

An allocation of savings survey was conducted in 2001 by Bank of Mongolia. The survey covered 2000 households from 21 aimags and the capital city. The questionnaire of the survey contained questions aimed at determining if households have savings and if yes, how they are allocated.

According to the survey results, 54.3 percent of selected households have savings while 45.7 percent of households do not. This high percentage of households without savings can be explained by the 30 percent of the population in poverty (poverty survey in 1998). To the question "How do you allocate your savings?," presented to households with savings (54.3 percent of total) 57.6 percent responded they hold the cash in hand, while 42.4 percent prefer to keep their savings in the following ways: lending to others (6.3 percent), trading (21.2 percent), investing (8.7 percent), opening savings deposits (6.3 percent).

Households holding cash in hand (57.6 percent of subtotal) were asked why they do so. The following answers were obtained: making payments by cash is easy (62.4 percent), distrust in banking sector (12.2 percent), slow banking service (5.3 percent), deposit rate is not high enough (16.2 percent), other reasons (4.0 percent). That households consider holding cash in hand comfortable is an indication of the poor development of non-cash payment instruments.

To the question "What type payment mechanism do you think is comfortable?," 70 percent of the households, and the overwhelming majority, responded "by cash", 10.1 percent think that payments would be easier if e-money were used, 6.2 percent consider current accounts the most comfortable and 13.7 percent did not have any idea.

The next question concerned 4.7 percent of total households making investment and was to determine the main types of investments. The survey showed that most households (45.8 percent) invest their money in education (student fees), 27.1 percent buy fixed assets, whereas 9.5 percent buy shares and bonds, and the rest invest their money in other forms.

* The full version of the paper is available in the Publication section of the Mongolbank website www.mongolbank.mn

cleared against an earlier credit from BOM and the remaining amount of 1.6 billion was repaid by the MOFE in equal amounts during February and August 2001.

The agreement concluded between BOM and MOFE in June 2001 on Repayment of Bank Restructuring Bonds was an important step toward resolving disputes with the accumulated obligations between institutions. As it was provisioned in the above mentioned agreement, the Government paid MNT 9.8 billion to the BOM in June. Also, Restructuring Bonds totaling MNT 453.3 million were paid from BOM's interest income earned from their ownership of the Bonds during July and December 2001.

Thus, the outstanding balance of Government debt to BOM as of the end of the year was MNT 9.4 billion, which is MNT 10.2 billion less than that of the previous year.

Government Security

As of December 31, 2001 BOM held Government Securities in MNT for the amount of 13.6 billion. This consisted of MNT 9.4 billion securities issued initially for replacing directed and inherited loans of Agricultural Bank and ITI Bank, plus Bank Restructuring Bonds issued upon liquidation of Ard and Daatgal Banks and MNT 4.2 billion of securities held initially by Agricultural Bank and then bought by BOM as it was requested by MOFE.

MNT 4.2 billion of Government securities were bought by BOM from Agricultural Bank and are scheduled to be redeemed in four equal amounts in June and December 2002 and 2003. Other provisions in the agreement included sending a note to MOFE concerning a direct deduction of overdue payments from the general government account at BOM, MOFE's right to set interest rates independently, and payment of bonus interest income by BOM to the MOFE. Bank of Mongolia returned MNT 2.6 million to the MOFE as a bonus in December, which was used for repaying principal. In 2001, the MOFE paid BOM about MNT 1.1 billion in interest on the securities.

Short Term Discounted Government Bonds

According to the Decree 8 of Parliament, dated January 15, 2001, the Government issued short-term discounted bonds for the purpose of bridging a gap between budget income and expenses. There were 23 auctions for a total MNT 39.7 billion during the first 9 months of the financial year. At the end of these auctions the authorized amount was reached and therefore there were no further auctions in the remaining period.

At the request of the MOFE, BOM purchased a short-term discounted bond of MNT 6.3 billion on August 3, 2001 for creating a fund to pay the Government's current debt of USD 5.7 million to the Russian Federation. Of these bonds, 3.3 billion had a maturity of 60 days and an annual interest rate of 13.8 percent, and the remaining amount of 3.0 billion had a 90 day maturity and 14.5 percent interest per annum. The bonds were traded on the inter-bank market on August 31 and were purchased by Trade and Development Bank.

Table 17. The Bank of Mongolia's claims on government (millions of togrog)

	2000.12.31	2001.12.31	Difference /+, -/
Prepaid tax	9.6	1787.2	1777.6
Government bond	40006.5	30640.3	-9366.2
Government bond interest rate	43.3	30.2	-13.1
Total	40059.4	32457.8	-7601.6

5.2 Foreign Exchange Policy and Reserve Management

The main objectives for implementing foreign exchange policy and reserve management are sound reserve management, appropriate allocation of reserves, real and nominal exchange rates of MNT to USD, financial intermediary for the Government and expansion of activities with financial institutions.

Foreign Exchange Reserve Management

At the end of the reporting year, net foreign exchange reserves had reached USD 160.1 million, which is 13.8 percent higher than the previous year - an amount meeting 14.9 weeks of import needs for the country. Revenue from gold trading and from interest income on deposits placed with foreign banks was the main contributor to reserve growth.

In 2001, Bank of Mongolia purchased 13.8 tons of gold from 117 domestic gold mining enterprises, which was 1.5 tons or by 12.0 percent greater than last year. Of the gold purchased, 13.3 tons were refined outside the country, leading to an increase of monetary gold reserves by 11.7 tons and monetary silver reserves by 1.6 tons.

Besides operations on the international market, 4.6 kg of gold and 933 kg of silver were sold to 25 domestic business entities for MNT 105.8 million. At the request of gold mining companies, 104 kg of gold were exported, generating MNT 821.8 thousand in fees, and MNT 37.8 million in royalties for licensing commemorative coins.

In the reporting year, international foreign exchange and gold markets were extremely volatile. A lot of attention has been paid to observation and analysis of market movements and trends, and the accurate planning of receipts with the consistent use of financial derivatives.

Net profit from foreign exchange operations was USD 3.6 million and USD 4.7 million from gold trading operations. Deposits in the amount of USD 124.6 million were placed with 19 correspondent banks, resulting in interest income of USD 5.6 million. Gold deposits generated interest income of USD 0.3 million, and 90 percent of profits were earned by the Bank of Mongolia in the reporting year.

To reduce credit exposure, the allocation of foreign exchange reserve was done only after reviewing the counterparties' international ratings issued by Moody's Investors Service and Standard & Poor's. The Bank of Mongolia conducted operations only with highly rated financial institutions.

Exchange Rate Policy

Stabilization of the MNT exchange rate, implementation of a flexible exchange rate policy adjusted to balance of payments needs and supporting export were the priority issues in the every day activities of Bank of Mongolia in the reporting year.

Fluctuations of the MNT real exchange rate have been calculated on a monthly basis and the exchange rate of the MNT against foreign currencies remained relatively stable. The exchange rate of the MNT to US dollar depreciated by 0.5 percent at the end of the year, reflecting the stabilization of the MNT.

In the reporting year, due to depreciation of currencies of major foreign trade partners, the real exchange rate index reached 139.59 points - an increase of 7.2 points compared with last year. In the first and second quarters of the year, foreign investment in storage of raw materials and mining sectors sharply increased and the supply of US dollars in the domestic market picked up, causing the appreciation of the MNT exchange rate. Thus, the exchange rate of the MNT to the US dollar appreciated in the second quarter of the reporting year, but not as sharply as in the past. To some degree, it was related to the low demand for raw cashmere from our main trade partner, the People's Republic of China, resulting in less inflow of foreign exchange.

In 2001, to maintain the stability of the domestic foreign exchange market, Bank of Mongolia bought USD 115.3 million and sold USD 181.3 million ending with a negative balance of USD 66 million.

5.3 Financial Supervision

In order to protect the rights of depositors and ensure stability of the financial system, Bank of Mongolia has been improving and reorganizing its supervision of banks and non-bank financial institutions. This was done in accordance with the Long and Medium Term Development Strategy, approved by the Bank of Mongolia in 2000, the Financial Sector Restructuring Medium Term Plan approved by the Parliament in 2001, and the Monetary Policy Guidelines for the year 2001. Regulatory bodies have taken the necessary actions to increase banking services in the rural area, reconstruct the internal audit of banks in accordance with the principles of international financial institutions, support development of non-bank financial institutions, continue the restructuring of the banking system, increase transparency of financial institutions, facilitate market discipline, and approve guidelines for prudent risk management.

Capital Adequacy

As of the end of last year, the average capital adequacy ratio for the banking system was 24.6 percent, which is above the required 10 percent minimum approved by the Bank of Mongolia. In accordance with the powers assigned by banking legislation, Bank of Mongolia increased its minimum equity capital requirement to MNT 2 billion in 2000. By increasing bank equity in accordance with the aforementioned changes, allocating resources into low risk assets such as BOM bills, Government bonds and claims on reputable foreign banks, and concentrating lending on just a few credible borrowers, thereby simplifying the credit review process, the banks managed to improve solvency and keep the capital ratio very

Figure 42. Net international reserves

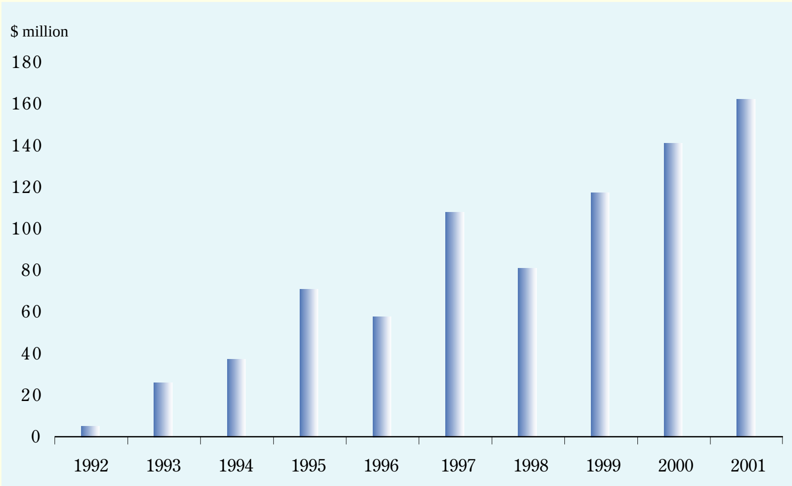


Figure 43. Togrog rate against US dollar

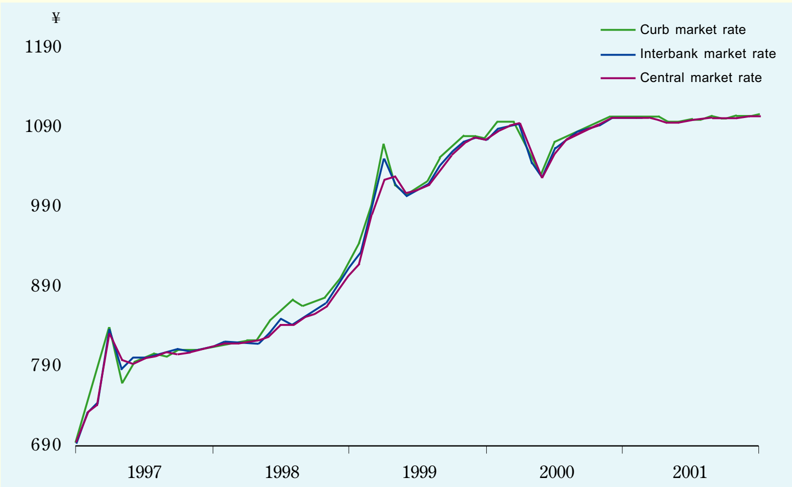
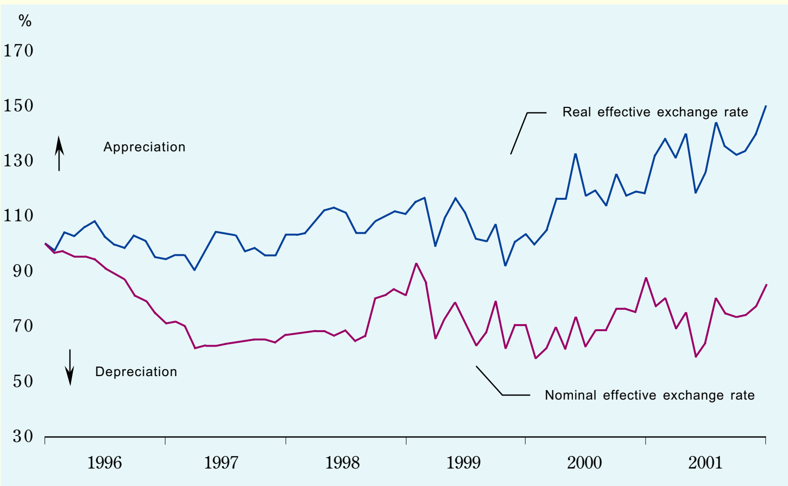


Figure 44. Real and nominal effective exchange rate



Box 8. Seasonal Pattern of Foreign Exchange Trading at Bank of Mongolia

Extremity and phase criteria have been applied to monthly data for foreign exchange trading of Bank of Mongolia to determine if there are any seasonal patterns. Data on purchased and sold foreign exchange included the periods 1995-2000 and 1998-2001 respectively. The hypotheses, that data on purchased and sold foreign exchange has seasonality, has been rejected by extremity and phase criteria respectively. At the onset of the transition period, Mongolia experienced a shortage of foreign exchange, because the foreign exchange market was not functioning properly. Therefore, foreign exchange trading has been subject to significant seasonal fluctuations. For instance, during April and May (the cashmere production period) Mongolia experiences large inflow of US dollars, so the amount of foreign exchange offered by commercial banks increased significantly. Before holidays such as Christmas or the Lunar New Year, the demand for imported goods from Russia and China increases, leading to a significant increase of foreign exchange sold by Bank of Mongolia to commercial banks. To maintain a stable MNT exchange rate, the Bank of Mongolia buys foreign exchange when the supply of foreign exchange increases and vice versa. However, when foreign reserves increase and stabilization of the foreign exchange market is achieved, the effects of changes in the supply and demand of the domestic forex market on the foreign exchange trading of Bank of Mongolia weakens. The amount of purchased or sold foreign exchange is becoming more and more closely related to reserve money planning and the money supply. Foreign exchange cash inflow from Mongolians working abroad has become one of the main factors determining the domestic foreign exchange market and needs to be studied furthermore.

* The full version of the paper is available in the Publication section of the Mongolbank website www.mongolbank.mn

stable. Due to an increase in profitability and the transfer of subordinated debt instruments into paid-in capital, Agricultural Bank met the capital requirement by the end of 2001. Therefore, as of the end of last year all banks complied with the minimum capital ratio requirement. The Bank of Mongolia increased the minimum equity capital requirement to MNT 4 billion in 2001. This was done in order to improve the ability of banks to withstand risks, decrease the currency held outside of banks and thereby expanding financial intermediation and injecting more financial resources into the real economy, intensifying bank lending activities to support developments in sectors of the real economy, and making greater the role of the financial sector in facilitating stable economic growth. Operating banks have to meet this new standard by the first quarter of 2004.

Liquidity

Bank of Mongolia monitors liquidity positions of banks by monitoring their compliance with the reserve requirement and the regulated prudential liquidity ratio. All banks complied with the reserve requirement throughout the year. During the last year, bank deposits increased tremendously and the liquidity ratio improved by 8.1 percent to 48.5 percent, because of the allocation of resources into low risk, liquid assets. The minimum requirement for this ratio is 18 percent. Therefore, its current level is higher from the aforementioned standard by 30.5 percent. Due to amendments introduced in the banking legislation in February 2001, the financial discipline of bank customers has improved, as evidenced by an increase in the liquidity positions. However, the increase of non-earning assets presents the possibility that further development in the asset-liability management function at banks is necessary in order for financial intermediation to be more effective.

Lending and Asset Quality

In 2001, outstanding loans of the banking sector doubled, to MNT 135.1 billion. Non-performing loans declined by 31.6 percent or MNT 5.0 billion to MNT 10.9 billion, which now represents only 8 percent of total loans compared with last year's 15.8 percent. This is an indication of improvements in loan recovery and expansion of lending activities.

Even though there has been an improvement in non-performing loans, accompanied by the "evolution" of the financial discipline of bank customers, credit risk is still high, due to anxiety in the real economy and the lack of experience of some banks. Therefore, regulatory bodies have continued their effort to enhance credit information systems by collecting more comprehensive information from government agencies that might allow banks to do a more precise evaluation of the financial condition and collateral of borrowers. For example, relevant information databases have been enhanced by information from the Immovable Property Registration Office on collateral taken by banks.

In addition, a special project to intensify information sharing among banks and non-bank financial institutions has begun by upgrading relevant software packages and the technical facilities of the information bureau. A unique strategy has also been developed to connect the Credit Information Bureau with the Mongolian Asset Recovery Agency, Taxation Authorities, Court Decision Enhancement Board, Civil Registration Office, Stock Exchange, Customs Authority, and Immovable Property Registration Office and expand its activities into rural areas. In order to expedite the implementation of this project, appropriate regulations for the Credit Information Bureau have been updated to request from banks and non-bank financial institutions some additional information on off-balance sheet commitments, which should help make proper evaluations and develop the overall credit risk profile. All banks have to present this information in a single format approved by BOM.

The information bureau signs special cooperation contracts with banks, non-bank financial institutions, and aforementioned government agencies to consolidate and redistribute information on borrowers. As of the end of last year, the bureau consolidated information collected from banks, non-bank financial institutions, the Mongolian Asset Recovery Agency and the liquidated ITI Bank on more than 37.8 thousand borrowers, with outstanding loans of MNT 183.6 billion.

ITI Bank, which was put under receivership in 1999, had several past due loans due to German Banks and this failure to meet its obligations contributed to eroding confidence in our banking sector. In order to attract foreign investors and restore the reputation, Bank of Mongolia has taken resolute actions, mainly aimed at cooperation with law enforcement government agencies, to improve recovery of non-performing assets and conduct discounted sales of repossessed collateral. As a result, USD 4 million of problem loans were resolved.

In an effort to increase financial intermediation, during the second quarter of 2001 the Savings Bank was granted permission to begin lending. This also enables regulators to restructure the bank so it may begin to conduct its operations on a commercial basis.

As of the end of last year, provision for loan losses amounted to MNT 9.3 billion, which represented 85.8 percent of non-performing loans.

Market Risk

Interest rates charged by banks may seem very high compared with interest rate levels in other countries, but they are still lower than rates used by non-bank financial institutions. Rates charged by banks and non-bank financial institutions are not based on their actual cost of funds, but have more to do with rates charged by the competition. Due to competition in the banking system, caused by an intensification of banking activities, establishment of new domestic banks, and the competitive pressure from foreign banks and non-bank financial institutions, rates have tended to be very volatile but with a tendency to decline. In 2001, BOM cut its bill rate by 2.9 percent to 6.3 percent, which has put pressure on the lending rates of banks. For example, banks like TDB and Golomt, which represent a large portion of the banking sector, reduced their lending rates in 2001. During the first quarter of 2001, the annual loan rate at TDB was 34.5 percent while Golomt was 37.6 percent and as of the fourth quarter of the year these rates decreased to 28.7 percent and 28.5 percent respectively.

In addition, government long term bonds, household deposits, and foreign assets have been concentrated in a few banks, representing a significant market share. This concentration could lead to a systemic risk, caused by sensitivity factors, such as volatility of prices, exchange rates, and liability structures.

Bank of Mongolia is continuing to impose limits for net open positions, in order to maintain bank foreign exchange risks at a sustainable level. During the last year, the MNT/USD exchange rate was quite stable, so Bank of Mongolia increased the net open position limits to give banks some room to expand operations and thereby effectiveness. In addition, some banks, which met standards approved by international financial organizations, were allowed to apply more sophisticated models to determine risks and capital charges.

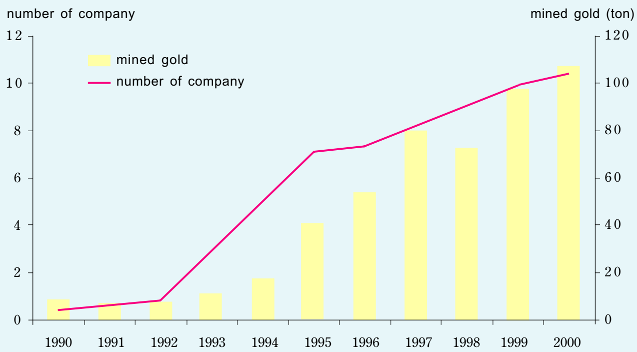
Aggregated net open positions of the banking system represented only 1.8 percent of the total capital, but this figure increased to 12.4 percent in 2001, due to changes in the aggregation method and a sharp rise in foreign assets.

Supervision Framework

It was necessary to focus the supervision of financial institutions on risk evaluation and assessment of risk management systems. As a regulatory authority responsible for supervision of banks and non-bank financial institutions, BOM has been studying and imple-

Box 9. Interesting Facts about Gold

Gold has unique physical properties. Its lustre, easy workability, and virtual indestructibility have given it a special place in the history of the world. Over centuries, gold has been prized for its rarity and beauty. One of the earliest records of gold used as money dates from 560 BC, when King Croesus of Lydia, (today's western Turkey) created a coin emblazoned with his own image. Before coinage, many commodities were used as a medium of exchange. As the idea of the guaranteed gold coin gained gradual acceptance, gold became the formalized basis of economic life. Like ancient cultures, our modern society still recognizes the value and beauty of gold. Gold jewerly continues to adorn us. Gold is also used as an industrial metal in electronics, dentistry and other applications. Gold is an internationally recognized monetary and financial asset. Significantly, governments hold one quarter of all the gold in existence. The supply of gold is limited by nature itself: thousands of pounds of ore are required to produce just one precious ounce. Gold is so scarce that all the gold that has ever been mined amounted to only 125,000-135,000 tons. In addition, the amount of new gold mined each year is relatively small despite the use of advanced mining technology. New supplies generally add less than 2 percent per year to the world's total stock of gold. Around three quarters of the annual mine production comes from the top-ten gold-producing nations, such as South Africa (449 tons), United States (341 tons), Australia (303 tons), China (170 tons), Canada (158 tons), Indonesia (130 tons), Peru (128 tons), Russia (104 tons), Uzbekistan (90 tons), Ghana (70 tons). The gold mining industry in Mongolia has developed since the 11th and 12th centuries. It is a fact that a Mongolia-Russian joint shareholding company (association) explored about 20 tons of gold from 1910 to 1919. The Tolgoit's placer gold mining has been explored jointly by Mongolia and the former Soviet Union (Russia) since 1974. A "Gold" program was submitted to the Parliament in 1991, and implemented as a Government project. In connection with this, both the number of companies involved in the gold mining sector and the amount of gold extracted increased rapidly. Subsequently, gold export reached 15-20 percent of the total export. There are 2 types of gold mining resources in nature, placer gold mining and hard rock gold mining. Gold extracting technologies of these 2 types are different. Primarily, the gold reserve in Mongolia was estimated to be 146 tons, as of January 2000, of which, 64 tons were placer deposit and 82 tons were of hard rock deposit. Due to a shortage in the financing required for exploration of hard rock gold mining, all gold mining companies are currently engaged in placer gold mining in Mongolia. In 2000, 10 leading companies such as Mongolgazar, Erel, Altan dornod Mongol, Shijir Alt, Gatsuurt, Mongolalt Corporation, Mon Polimet, Datsan Trade, Borzon Trade, Ikh Temuulel have mined three quarters of the total gold explored.



It is estimated that if the gold unit (1 ounce) price keeps at a level no less than USD 255, then the profitability of world top gold companies will be about 10%. However, if the unit price reaches USD 333, it will allow an ordinary gold company to gain 10% in profit. In the case of Mongolia, the decrease of the unit price below USD 255 will lead to the bankruptcy of some gold mining companies. In 2001, Mongolia explored 13.8 tons of gold, which is an increase by 12.1 percent, or 1.5 tons compared to the previous year.

** The full version of the paper is available in the Publication section of the Mongolbank website www.mongolbank.mn* menting new standards and new techniques applied by international financial organizations. In addition, BOM has upgraded its regulation for prudential ratios and improved mechanisms to impose prompt corrective actions for problem banks. As a result, the fundamentals for early supervisory intervention have been refined to prevent further deterioration in the financial condition of banks, based on early signals of difficulties and thereby ensuring secure and stable operations of banks and the banking system.

In addition, BOM has newly approved new comprehensive regulations on off-site monitoring and on-site supervision. The result has been that off-site surveillance concentrates on evaluation of the financial condition of banks, which is based on a time series analysis of earnings and asset quality. Based on its evaluations, the regulatory authority takes remedial actions, in accordance with legislation, to correct detected deficiencies.

During the last year, BOM conducted overall and targeted on-site inspections of 15 banks, 25 non-bank financial institutions, 72 foreign exchange offices and supervised Savings and Credit Unions together with the Taxation Authorities.

Bank and non-bank financial institution violations totaled MNT 13 billion and 0.06 billion respectively. Necessary follow-up enforcement measures were taken.

The predominant enforcement actions included signing and monitoring the compliance of memorandums of understanding in financial institutions. For example, during the last year BOM appointed a controller at Innovation Bank and signed a Memorandum of Understanding to improve financial conditions of the bank.

Bank Accounting and Audit

Mongolian banks mainly use accounting software developed by domestic companies, but due to expansion of activities and introduction of new lines of business some technical problems have arisen, creating burdens in daily operations and creating some additional operational risk. Therefore, BOM has initiated a project and concluded an agreement with the Australian company, FNS, to introduce accounting software which suits banks operations for international markets and enables them to process various types of information. As a result of this project, the new software has been tested in TDB on a pilot basis and has already yielded some positive outcomes. Agriculture and Post Bank’s installation of the software has already begun.

In order to enhance audits of banks and non-bank financial institutions, BOM has amended its regulation for granting permission for external audits of financial institutions. During previous years, large banks were audited by internationally recognized audit companies, and BOM has extended the license granted to Arthur Andersen and approved establishment of a new branch for Ernst & Young. Currently 5 domestic companies have been granted permission to audit banks and their operations have been improving.

Figure 45. Liquidity ratio

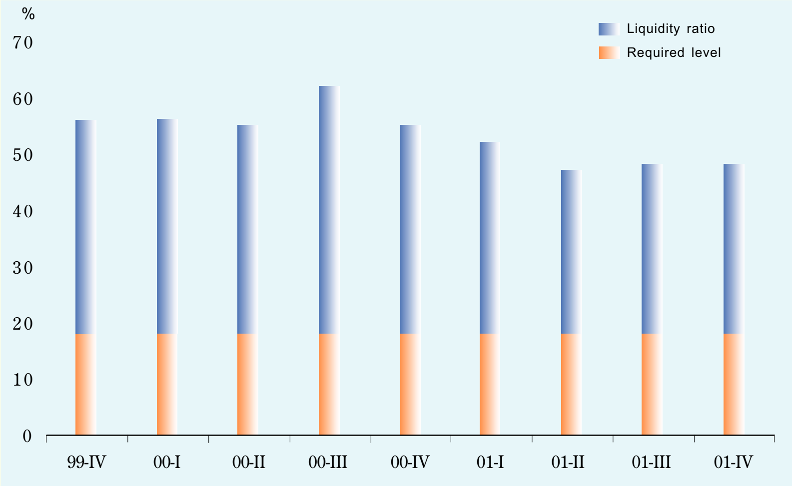
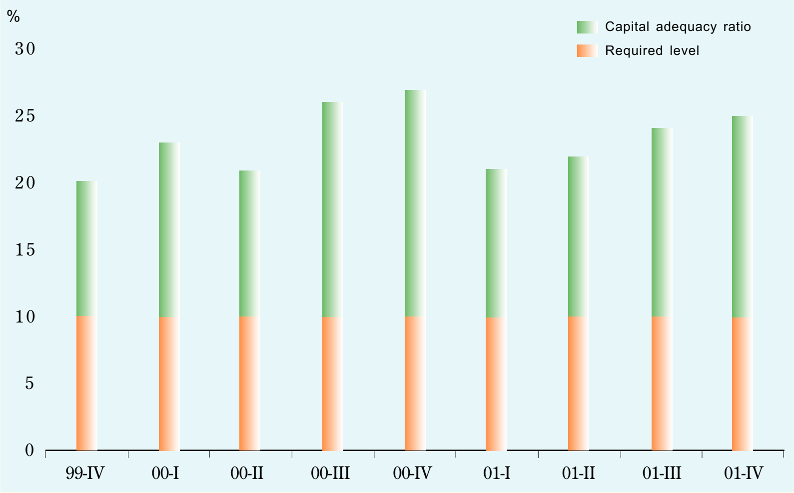


Figure 46. Capital adequacy ratio



Transparency and Disclosure

BOM constantly monitors banks' disclosures of their financial statements and their advertisement of new lines of businesses. In accordance with the banking legislation, banks are required to publish their financial statements quarterly in newspapers and they must be audited by an external audit company at least annually. This increases the market pressure of stakeholders, by reducing the number of cases of stakeholders selecting poor performing banks and improves the control mechanisms of shareholders.

5.4 Other Activities

Management and Organization.

In accordance with State monetary policy guidelines, "Step by step measures shall be taken to test intensification of Bank of Mongolia's budget management and financing reform within activities of some departments, divisions, and units and improve the organizational structure of departments," some changes were made in Bank of Mongolia's structure, post and organization, which was approved by the Governor of Bank of Mongolia in 2000.

As of year-end, Bank of Mongolia had 286 employees in 6 departments, 6 divisions, 1 special sub-division, 7 units, 19 provincial branches and 1 representative office, of which 196 were in the head office. This includes twenty-four masters and 2 doctoral candidates, who graduated from universities in USA, Great Britain, Japan and Mongolia.

The human resource policy of Bank of Mongolia is aimed at enhancing and improving the professional capability, social guarantee of its employees (providing with apartments, transportation facilities, health care, wage, and cultural and public activities) and providing them with educational opportunities.

In order to implement the above measures Bank of Mongolia follows regulations and procedures issued by its Board of Directors in accordance with relevant laws.

Internal Audit Activities

The Bank of Mongolia periodically carries out activities to revise and improve legislative documents related to Bank of Mongolia's internal audit policy, its principles, rules of the department, and internal audit planning and activities. This is done in accordance with the advice given by the IMF, on improvements of the internal audit system and from study of experiences in the internal audit activities of the Central Banks of Germany, Japan, Sweden and international standards of internal audit operations.

Within this framework, particular attention was paid to the training of auditors, improvement of organizational capacity, and implementation of risk-based supervisory principles, consistent with international standards.

Bank of Mongolia aims to assess, research, and develop different opinions and proposals and to make the relevant calculations necessary to radically improve the structure of its branches and representative offices in the provinces, in conformity with a policy based on regional development.

In an effort to intensify reforms in budget management and financing and in conjunction with a change to budgeting by product accounting principle in Bank of Mongolia's units (departments, divisions, branches, representative offices), periodically, work has been done on the processing of legal documents, regulations and instructions related to the policy of product determination, assessment and financing.

During the fiscal year, Bank of Mongolia conducted 44 regular, surprise, and partial on-site inspections. Also, inspections were made in response to private messages, complaints to departments, divisions, and branches and disclosed irregularities for a total of MNT 4.4 billion. Thirteen state inspector acts and penalties were made for MNT 225 thousand, against 4 individuals and work was done to investigate and correct the irregularities.

Arthur Andersen Mongolia, external auditors, audited and issued a report of their views and opinions of Bank of Mongolia's financial statement for the year, 2000. Attention has been focused on responding to their recommendations. Ernst & Young Malaysia's external audit company conducted the audit of Bank of Mongolia's financial statement for 2001.

Issue of Banknotes and Coins

In the reporting year, Bank of Mongolia carried out the following activities, regarding the issuance of currency. Notes in 50 and 100 MNT denominations were printed in the German Company, Giesecke and Devrient, during April and May 2001. In an effort to increase the lifespan of the banknotes, new notes were printed with a special coating of a transparent overlay protection and some additional security features against possible counterfeiting were added.

In commemoration of the 840th anniversary of Chinggis Khan, Bank of Mongolia ordered the minting of 500 golden bars weighing 100 grams, in the Swiss mint Pamp S.A..

In 2001, Bank of Mongolia, in collaboration with Zoos-Goyol Ltd. minted 2 million coins with a portrait of Sukhbaatar, commemorating the 80th anniversary of the People's Revolution and these coins were issued prior to the celebration.

In 2001, the Bank signed an agreement with a German printing company, on a tender basis, for the reprint of the 10,000 MNT note to be put into circulation in the second quarter of 2002. Also, the Bank has signed a contract with a British printing company for the reprinting of 10 and 20 MNT denomination notes to be put into circulation in July and August 2002.

Training and Seminars

Bank of Mongolia has developed a special training program designed to bring its employees' knowledge and professional skills up to a more modern banking level. Trainings have been organized by the IMF, WB, SEACEN Research and Training Center, Bank of Mongolia. The Mongolian Bank Training Center has implemented recruits in accordance with this program.

A total of 66 staff members attended training abroad in the reporting year. The number of participants in each program was as follows: Joint Vienna Institute (JVI) -13, Singapore Training Institute (STI) - 15, SEACEN Research and Training Center – 8, and World Bank and International Monetary Fund organized training – 30. Ninety-two participants were involved in domestic training events.

Bank of Mongolia has systematically focused on improving its staff's professional skills in local branches, in order to meet the needs of a market economy.

For the purpose of regulating the banking and financial system, Bank of Mongolia issued more than 20 new regulations and guidelines in the year. Introductory and explanatory seminars were provided for each regulation or guideline, and training was conducted not only for employees of commercial banks, but also for non-bank financial institutions.

A seminar on banking, taxation and real estate registration was conducted jointly with the Budget Standing Committee of the Parliament, the National Taxation Department, the Ministry of Justice and Internal Affairs, the Ministry of Finance and Economy, and the Real Estate Registration Office. Discussions were held about upgrading inter-bank loan information, the tax levied on bank and non-bank financial institutions, tax policy information, payment of taxes, and improvement of property registration.

In addition, a regional seminar was held in Orkhon aimag in August 2001 for a 5 aimag region, in cooperation with the Shiho-Shoshi Japanese Lawyers Association, on the legal aspects of loan collateral, in theory and practice. The core issues discussed during the seminar were related to collateral legislation, based on examples from Japanese and Mongolian codes of real estate registration.

In the reporting year, the Bank Training Center organized 32 domestic and 7 foreign training events, with 1052 participants (some people participated multiple times) from Bank of Mongolia and the commercial banks.

Government's Intermediary Activities

In accordance with the Government's bilateral and multilateral agreements with the IMF, World Bank, ADB, donating country governments, and other banking and financial institutions, the Government of Mongolia received USD 85.8 million in concessional loans and repaid USD 33.0 million of loan principal and interest in the reporting year.

A meeting of experts to discuss an adjustment to the debt and transfer of rubles between the Mongolian and Polish Governments was successfully held in Ulaanbaatar during November of 2001. In this meeting, the conditions for payment of the debt were resolved beneficially for the country.

As a part of a technical assistance project to improve management of the budget, a debt registration database was created and connected to a network, under the auspices of MOFE. The software program makes it possible to create reports on Mongolian foreign debt, loan, and debt management.

International Cooperation

Continuing cooperation with international banking and financial institutions, were maintained and deepened in 2001, and new links with reputable institutions have been established. Cooperation agreements have been signed with the Central Bank of Vietnam and People's Bank of China. In addition, the Bank of Mongolia became a plenipotentiary member of the European Bank for Reconstruction and Development, which assures favorable conditions for loans and grants.

Information about the Bank of Mongolia and its activities are reviewed quarterly in a regular publication of the SEACEN Training and Research Center.

As a result of four missions of IMF representatives to Mongolia, and as part of the Poverty Reduction and Growth Facility Project, an agreement has been reached on the growth rate of net foreign reserves.

Additionally, an ISDA master agreement on financial derivative operations has been established with Rabobank of Holland. Presently this agreement has been made with four foreign banks, after adding two banks in 2001.

Information and Advertisement

In accordance with Article 34 of the Law on the Central Bank, Bank of Mongolia, as the authority responsible for implementing state monetary policy, provides foreign and domestic banking and financial institutions, ministries, and the general public with well-timed, reliable information concerning its monetary policy and activities. This includes policy and operations under implementation and development in the financial market and is done for the purpose of transparency and creating a sound banking system.

Bank of Mongolia signed a contract with the Mongolian News agency of the Mongolian National Television and Radio Station, and Mongolian Radio's New Generation. They began broadcasting the program "Banking Innovation" from the beginning of 2001, and the program "Business News" during the second half of 2001. Through these broadcasts Bank of Mongolia provided information regarding the world's economic situation, capital market rates, precious metal and currency prices, implementation of state monetary policy, banking and financial market information, activities of the banks and non-bank financial institutions, savings, loans and foreign relations.

Information about activities of Bank of Mongolia has regularly been disseminated through the Montsame Agency and the daily mass media.

In this time of rapid development in information technology, the central bank uses a website as one of its main tools in the transparent dissemination of information to its audience.

Bank of Mongolia first launched a website in 1999. At the end of 2001 there was a major revamping of its design and content. The content of the website is regularly and constantly updated. Bank of Mongolia disseminates broad information about policy implementation through its website (www.mongolbank.mn), as well as, up-to-date foreign and domestic prices and rates, inflation rates, banking laws and regulations, research papers, and statistic indices.

6. IMPROVMENTS IN LEGISLATION RELATED TO BANKING

In the year 2001, the following amendments and changes were made to legislation related to banking:

One. The Law on Amendment to the Business Entity and Organization Income Tax Law of Mongolia, dated January 25, 2001 states that Article 5, paragraph 5.1.1 shall read as "the part of capital classified as loan loss provision shall be deducted from taxable income".

Two. Paragraph 6, Article 368 of the Civil Law of Mongolia was amended in February 2, 2001 to:

Amendment added to Article 368 states "if the loan contract provisions specify that in the case of a borrower's failure to perform their contractual obligations, the loan collateral shall be transferred to the lender, as a nonnegotiable condition, and with the expiration of the loan contract, the bank or non-bank financial institution shall have the right to dispose of the collateral."

In accordance with this amendment, the following changes were made to the following relevant laws:

1. Three amendments to the Deposits, Loans, and Banking Transactions Law

    - In paragraph 12.4, three different circumstances for closing the account of a company were specified.

    - In paragraph 29.1, the amendment reads "... if a bank considers a borrowers' business income and activity to be unreliable, its expected profit can be used as collateral, on the basis of a pledge agreement. The regulation for pledging business income and expected profits shall be issued by BOM."

    - Article 9 "Safety of Deposits" was restated as follows:

2. In Article 18 "Exemption and Suspension from Payment of Duties" of the Law of Mongolia on State Stamp Duties, paragraph 1 sub-paragraph 12 was amended to include "claims from receivers and conservators appointed in insolvent banks."

Three. Law on Amendment on the Banking Law of Mongolia dated February 2, 2001.

1. The following paragraphs were added:

    - Statement "and other assets equivalent to a loan" was added after the words "value of loans" in paragraphs 1 and 3, and "amount of loans" in the paragraph 3, subparagraph 3.

- Article 31 now consists of two paragraphs, with the first paragraph becoming the 2nd paragraph and the first paragraph added by BOM and including the regulation for enforcement of penalties.

2. The following paragraphs and sub-paragraphs were restated.

2.1. Article 3, paragraph 1

- 1. A legal entity operates on the basis of profits on its shareholders paid-in capital, and that its shareholders will bear a loss not exceeding the amount of paid-in capital; entities engaged in the business of financial intermediation, of receiving money on deposit, extending loans on its own account, and providing current account services with special licenses from Bank of Mongolia, shall be defined as a bank..”

2.2. Article 16, paragraph 4

- 4. Total market value of securities purchased and held by a bank shall not exceed, the lesser of 20 percent of the bank’s capital or 10 percent of a single company’s issuance. Government securities and Central Bank Bills are exempted.”

2.3. Article 25, paragraph 2 and sub-paragraph 6

- 6. Matters of member(s) of the auditing board shall be governed by Article 92 of the Company Law of Mongolia.

2.4. Article 27, first sentence of paragraph 9

- 9. Shareholders shall be prohibited from withdrawing their paid-in capital shares, except from sale, bequeath, gift, or by giving in a will, or with Bank of Mongolia approval.

Bank of Mongolia reserves the right to reject an application for change of ownership in a form other than as described above as a sale, bequeath, gift or by giving in a will, if a court proves the contract or agreement is illegal.

3. The words “independent auditing institution” was replaced by “auditing institution,” in Article 31 statement 4 and “penalty” was changed to “administrative punishment” specified in Article 49 in this law.

Four. The Law on Amendment to the Law of Mongolia on the Central Bank (Bank of Mongolia) dated in December 28, 2001:

- This law changed the equity fund of BOM, stated in Article 31, paragraph 1, to "no less than one billion" to "five billion."

Five. In the Law of Mongolia on Special Licenses of Commercial Activities dated February 1, 2001:

Article 15, where "a type of business activity subject to special licenses" includes:

15.2. banking activity;
15.2.1 establish a bank, conduct banking operations

Six. In connection to the Law of Mongolia on Special Licenses of Commercial Activities:

1. in the Banking Law:

- In Article 6, paragraph 2, related to the licensing, revoking and extending of a license to a NBFI to conduct banking operations the statement that "Bank of Mongolia shall issue a regulation" changed to "matter shall be regulated in a separate law."

- The followings items were deleted from Article 17, paragraph 3 - the words "a representative," Article 28 "the items in the financial statement of the bank shall be based on international practice and standard complaints as prescribed by regulations of the Bank of Mongolia"

- The following items were cancelled: Article 20 paragraph 5 stated "The regulation for establishing a bank or its branch shall be issued by BOM," Article 28^2 "Auditing of the Financial Statement," paragraph 2 " Bank of Mongolia shall issue regulations for granting permission on banking audit for the purpose of auditing banks financial statements and other documents," Article 28^4 "Cancellation of permission for bank audit" as a whole.

3. In the Law of Mongolia on Currency Settlements

- 1. Article 8, the power of Bank of Mongolia, provision 6 was restated as "control permanent residents foreign currency settlement and transactions."

- Article 14, "foreign currency accounts, transactions and the provision of credit," provision 6 was restated as "business entities, organizations and individuals shall register their loan obligations in foreign currency to a foreigner with Bank of Mongolia."

- 2. The following were deleted: Article 12, paragraph 3 "authorized by Bank of Mongolia," Article 18, paragraph 1, sub-paragraphs "and 12(3)"

Seven. In December 13, 2001 the revised Law of Mongolia on Accounting was passed by Parliament.

Eight. November 30, 2001 the amendment on the Law of Mongolia on Auditing was passed by Parliament.

7. CHRONICLE OF BANK OF MONGOLIA'S POLICY AND TECHNICAL MEASURES IN 2001

Mth	Day	Ref. No.	Title	Content
1	2	4	To modify the format of commercial banks' loan report and improve its use	Made revisions to loan report format from commercial banks to BOM.
1	9	23	To issue a Regulation	The regulation on accounting and the operation of the payment and settlement committee of banking institutions was issued
1	16	36	To license	The license of conducting some additional banking services was given to Ulaanbaatar City Bank.
1	22	47	The transfer of the assets and the liabilities	The assets and the liabilities of Reconstruction and ITI Banks were transferred to MARA.
2	6	75	To amend the Regulation	"regulation on accounting standard of Non-Bank Financial Institutions" and the "regulation on prudential ratios of NBFIs" were amended.
2	13	84	To license	The license for keeping precious metals and other treasures; investing and consulting in/on precious metals was given to Anod Bank.
3	9	115	To license	The ordinary license for conducting foreign payment and settlement was given to the Ulaanbaatar City Bank.
3	12	117	To permit banks to participate in the project	Golomt, Zoos, and Erel Banks were allowed to participate in "The Employment Generation Project" of the ADB.
3	26	149	To license	Transcapital LL Co.[1] was licensed to conduct commercial loan services.
3	27	151	To extend a license	Licenses for auditing bank institutions, held by Dalai Van Audit LL Co. and Tushlegiin Bulag Audit LL Co. were extended.
3	27	152	To extend a license	The bank auditing license, held by NIMM Audit LL Co. was extended.
3	27	153	To extend a license	The bank auditing license, held by Arthur Andersen Mongol Audit LL Co. was extended.
3	27	154	To impose renewed limits on the credit to non-banks	Agricultural Bank's credit limit on loans to non-banks was increased to 5 billion at the end of March and 7.5 billion in June
4	6	175	To issue a instruction	"on-site examinations procedures by BOM" were issued for the use of supervisors
4	23	210	To impose floor on paid-in capital	NBFIs licensed by BOM were given a minimum paid-in capital of 30 million in Ulaanbaatar, 10 million in Darhan and Erdenet, and one million in other rural areas.
4	25	211	To give permission for establishing a branch	Zoos Bank was given permission to establish a branches in Selenge and Orkhon aimags.
4	27	219	To redeem an asset provision charged off from loan loss provisions.	Some assets of Reconstruction Bank were
5	7	232	To license	A license for conducting commercial lending activities was given to Munkh-Arivjikh LL Co.
5	7	233	To license	A license for conducting commercial lending activities was given to Darkhan-Saikhan Bulag BHN[2] .

5	7	128/235	To approve a plan	A plan for the Development of the Financial Sector Infrastructure was approved in a joint resolution of the BOM Governor and Minister of Finance and Economy
5	10	241	To give permission for establishing a branch	Zoos Bank was granted permission to establish a branch in the Bayangol district of Ulaanbaatar.
5	11	242	Measure regarding the Shinechlel bank	Permission for lending at Innovation Bank was returned, allowing the bank to take savings deposits in an amount not exceeding 50 percent of the bank's capital.
5	18	252	To license	A banking license was granted to the owners of the Chingiskhaan Bank, a bank with foreign capital investment.
5	18	255	To issue a Regulation	A Regulation on BOM's Lending and Repay ment between itself and the Government was issued.
6	15	165/276	To experiment a Treasure Single Account	A joint resolution of the BOM Governor and the Minister of Finance and Economy approved the Regulation on Implementation of an Experiment for a Single Treasury Account.
6	19	279	To permit money exchange operation	Permission for Foreign Exchange operations was given to the legal entities Uran Uurgach LL Co., Tsagaan Turuu LL Co., and Buyant Ukhaa International Airport Co.
6	20	282	To amend the Regulation	Appendix 3 of the Regulation on Establishment of a Bank and Its Branches was revised.
6	20	284	To issue a Regulation	A Regulation on Inter-bank Overnight Credit was issued.
6	29	297	To permit money exchange operation	Permission for foreign exchange operations was given to Mr. L. Otgonbat.
6	29	300	To license	BatMNT LL Co. was licensed to conduct commercial loan services.
7	16	311	To abolish a Resolution	The BOM Governor's Resolution 252 of 2001 to license Chingis Khaan bank was reversed.
7	23	317	To license	Tuv Khogjil LL Co. was licensed to conduct commercial loan services.
7	23	322	To renew a Regulation	The Regulation to Extend and Cancel Permission, and Control Foreign Exchange Operations was revised.
7	24	329	To license	Delta San LL Co. was licensed to conduct commercial loan services.
7	25	333	To license a Non Bank Financial Institution	Chingis Khaan Bank was licensed to conduct commercial loan services.
7	25	336	To license a Bank	Inter-Bank was licensed.
8	10	352	To amend a Regulation	The Regulation on Establishment of Banks and Branches, issued in 2000, was amended
8	28	374	To license	Itgel And LL Co. was licensed to conduct commercial loan services.
8	28	378	To license	Invesscom LL Co. was licensed to conduct commercial loan services and a financial leasing operation.

8	29	379	To license	MGL LL Co. was given a license to establish a NBFI.
9	27	444	To renew a Regulation	The Regulation on Full Onsite Supervision and Evaluation of a Bank's Condition was revised.
10	03	459	To renew a Regulation	The Regulation to Set and Enforce Prudential Ratios on Banks was revised.
10	04	461	To renew a Regulation	The Regulation on Central Bank Bills was revised.
10	04	465	To license	Money Land LL Co. was licensed to conduct commercial loan services.
10	04	466	To license	ABTS LL Co. was licensed to conduct commercial loan services.
10	11	474	To license	B and G Finance LL Co. was licensed to conduct commercial loan services.
10	15	487	To amend a Regulation	Appendix 3 of the Regulation on Central Bank Bills, issued in 2001 by the BOM Governor's resolution 461 was revised.
10	24	508	To license	Moron Credit LL Co. was licensed to conduct some banking operations.
10	26	310/516	To issue a Regulation	A Regulation on Payment and Settlement Between Bank of Mongolia and Ministry of Finance and Economy was issued.
11	05	533	To license	Jaranbat LL Co. was licensed to conduct commercial loan services.
11	05	534	To license	BATS Credit LL Co. was licensed to conduct some banking operations.
11	09	544	To issue a Regulation	A Regulation to License, Revoke and Extend a License for NBFIs was issued.
11	12	545	To license a Bank	Kapitron Bank was licensed
11	14	553	To issue a Regulation	A Regulation on Foreign Currency Reserve Management was issued
11	20	560	To license foreign bank branch	A license for establishing a branch was given to Menatep SP Bank of Russia.
11	21	565	To issue a Regulation	A Regulation on the Credit Information Bureau was issued
11	30	576	To license	Moron International LL Co. was licensed to conduct commercial loan services.
12	17	595	To license	Sar Shine International LL Co. was licensed to conduct some banking operations.
12	27	610	To license a Bank	XacBank was licensed
12	29	630	To license	KAPMON LL Co. was licensed to conduct commercial loan services.
12	29	631	To license	City San LL Co. was licensed to conduct commercial loan services.

[1] LL Co. stands for Limited Liability Company. Sometimes the abbreviation HHK is also used.
[2] BHN is the abbreviation for Unlimited Partnership

AUDITORS' REPORT

To Bank of Mongolia (The Central Bank)

We have audited the financial statements of Bank of Mongolia.

Respective responsibilities of directors and auditors

The Bank of Mongolia'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 Bank of Mongolia have been prepared to comply with International Accounting Standards. The Board of Directors is responsible for ensuring that these financial statements, which have been prepared on the basis set out in the financial statements, present fairly the state of affairs of the Bank of Mongolia as at 31 December 2001 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 of Mongolia and enable the Board to ensure that the financial statements comply with the requirements set out in note 1 and note 2 thereto. The Board of Directors is also responsible for safeguarding the assets of the Bank of Mongolia, 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 of Mongolia. Applicable accounting standards have been followed in preparing the financial statements of the Bank of Mongolia insofar as they are appropriate to the basis of accounting set out in the notes to the financial statements.

ERNST & YOUNG

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 Bank of Mongolia'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 1 and note 2.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of Mongolia as at 31 December 2001 and the results of its operations and its cash flows for the year then ended in accordance with applicable International Accounting Standards.

Ernst & Young Mongol Audit

25th March 2002
UlaanBaatar
Mongolia

BANK OF MONGOLIA (THE CENTRAL BANK)

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 MNT million	2000 MNT million
Interest and similar income	4	7,957	12,525
Interest expense and similar charges	5	(4,320)	(3,760)
Net interest income		3,637	8,765
Net gain/(loss) from dealing of monetary gold		4,022	2,101
Net gain/(loss) from dealing in foreign currencies		1,951	192
Other operating income		424	360
Exceptional item	6	9,959	43
Net non interest income		16,356	2,696
Total income		19,993	11,461
Movement in provisions	7	29	3,468
Administrative expenses	8	(2,206)	(9,341)
Other operating expenses	9	(3,862)	(1,434)
Profit for the period		13,954	4,154
Retained profits brought forward		3,154	-
Profit available for distribution		17,108	4,154
Transferred to general reserve		(1,654)	-
Transferred to social development fund		(3,000)	(1,000)
Transferred to government budget	10	(2,500)	-
Retained profits carried forward		9,954	3,154

The annexed notes form an integral part of these financial statements.

BANK OF MONGOLIA (THE CENTRAL BANK)

BALANCE SHEET AS AT 31 DECEMBER 2001

	Note	2001 MNT million	2000 MNT million
ASSETS			
Cash on hand	**11**	**8,067**	4,018
Monetary gold and precious metals	**12**	**67,828**	31,593
Investment in foreign securities	**13**	**23,812**	47,829
Deposits and placements with foreign financial institutions	**14**	**211,745**	204,546
Placements with, and advances to local financial institutions	**15**	**7,217**	2,981
Government securities	**16**	**13,570**	9,873
Advances to the Ministry of Finance and Economy	**17**	**38,314**	23,558
Loans to companies	**18**	**151**	-
Other assets		**130**	142
Property, plant and equipment	**19**	**12,280**	10,958
TOTAL ASSETS		**383,114**	335,498
LIABILITIES AND CAPITAL FUNDS			
Cash in circulation		**119,206**	107,394
Debts issued	**20**	**50,000**	21,100
Foreign currency liabilities	**21**	**129,345**	133,066
Deposits of Ministry of Finance and Economy	**22**	**13,306**	17,936
Deposits of local financial institutions	**23**	**26,581**	25,538
Other liabilities	**24**	**7,654**	3,289
TOTAL LIABILITIES		**346,092**	308,323
CHARTER FUND AND RESERVES			
Charter fund	**25**	**1,000**	1,000
Reserves	**26**	**36,022**	26,175
TOTAL EQUITY		**37,022**	27,175
FUNDS EMPLOYED		**383,114**	335,498

The annexed notes form an integral part of these financial statements.

BANK OF MONGOLIA (THE CENTRAL BANK)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 MNT million	2000 MNT million
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**13,954**	4,154
Adjustments for :-		
Net realised (gains)/losses from monetary gold and foreign currency taken directly to reserve	**1,393**	2,516
Loss on disposal of property, plant and equipment	**46**	146
Depreciation	**308**	192
Operating profit before working capital changes	**15,701**	7,008
(Increase) / Decrease in operating assets:-		
Monetary gold and precious metals	**(36,235)**	(25,714)
Deposits and placements with foreign financial institutions	**(7,199)**	18,075
Investment in foreign securities	**24,017**	(26,085)
Placements with, and advances to local financial institutions	**(4,236)**	999
Government securities	**(3,697)**	(67)
Advances to Ministry of Finance and Economy	**(14,756)**	(22,004)
Loans to companies	**(151)**	2,335
Other assets	**12**	1
Increase / (Decrease) in operating liabilities:-		
Cash in circulation	**11,812**	15,827
Debts issued	**28,900**	(100)
Foreign currency liabilities	**(3,721)**	14,062
Deposits of Ministry of Finance and Economy	**(4,630)**	11,450
Deposits of local financial institutions	**1,043**	4,913
Other liabilities	**4,365**	1,465
Net cash flow from operating activities	**11,225**	2,165
CASH FLOW FROM FINANCING ACTIVITIES		
Transfer to Government	**(2,500)**	-
Contribution to Social Development Fund	**(3,000)**	-
Net cash flow from financing activities	**(5,500)**	-

BANK OF MONGOLIA (THE CENTRAL BANK)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTD.)

CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, plant and equipment		**(1,676)**	(1,504)
Net cash flow from investing activities		**(1,676)**	(1,504)
Net increase in cash and cash equivalents		**4,049**	661
Cash and cash equivalents brought forward		**4,018**	3,357
Cash and cash equivalents carried forward	**28**	**8,067**	4,018

The annexed notes form an integral part of these financial statements.

BANK OF MONGOLIA (THE CENTRAL BANK)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2001

1. MAIN RESPONSIBILITIES

The Bank of Mongolia'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 relationship 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 deposits 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 of Mongolia'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 International Accounting Standards ("IAS"), 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 of Mongolia'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 IAS.

2. BASIS OF PREPARATION (CONTD.)

The Bank adopted IAS 16 (property, plant and equipment) last year in revaluing its Head Office building. Nevertheless this revaluation is only being done to the Head Office building whilst the IAS requires the entire category of property, plant and equipment to which that asset belongs be revalued. The balance of the cost of building not revalued as at 31 December 2001 is MNT 340 million with net book value of MNT 332 million.

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 are 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:-

	2001	2000
US Dollar (USD)	**1,102.00**	1,097.00
Special Drawing Rights (SDR)	**1,382.40**	1,426.96

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

(b) Foreign currencies (Contd.)

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 assets 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 loan loss

Provision for loan loss 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 recovered) 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 and losses from the sale of gold and precious metals are taken directly to income.

(e) Property, plant and equipment

The Bank of Mongolia's property, plant and equipment are stated at cost, or at revalued amount, less depreciation calculated on the straight line basis over their estimated useful lives of the assets, at the rates prescribed by the Government order 8 dated 12 January 1994.

The Bank had revalued its head office building at the end 2000 and the revaluation surplus has been included in the reserves. The revaluation was based on the management's estimate of the market value of the building.

The estimated useful lives used by the Bank is as follows :-

Building	1.25%
Furniture and equipment	8.3% - 12.5%
Computers	12.5% - 16.7%
Motor vehicle	12.5% - 16.7%

Capital work in progress are not depreciated. Depreciation of these assets begins when the related assets are placed in service.

(f) Taxation

In accordance with the Laws of Mongolia on Central Bank, the Bank is exempt from all form of taxes.

(h) Use of estimates

The preparation of financial statements in conformity with IAS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(i) Retirement and other benefit obligations

The Bank of Mongolia does not have any pension arrangements apart from the state pension system of Mongolia, which requires current contributions by the employer be calculated as a percentage of current gross salary payments. Such expense is charged to the income statement in the period the related compensation is earned by the employee. In addition, the Bank of Mongolia has no post-retirement benefits or other significant compensated benefits requiring accrual.

4. INTEREST AND SIMILAR INCOME

	2001 MNT million	2000 MNT million
Deposits and placements with foreign financial institutions	**7,197**	9,410
Placements with, and advances to local financial institutions	**87**	1,205
Advances and loans to Ministry of Finance and Economy (MOFE)	**673**	1,910
	7,957	12,525

5. INTEREST EXPENSE AND SIMILAR CHARGES

	2001 MNT million	2000 MNT million
Loans from foreign financial institutions	**403**	29
Demand deposits of local financial institutions	**446**	704
Debt issued by Bank of Mongolia	**2,857**	2,969
Other interest expense	**614**	58
	4,320	3,760

6. EXCEPTIONAL ITEM

On 28 March 2001, the Bank of Mongolia had made a reconciliation with the Ministry of Finance and Economy (MOFE) regarding the outstanding loan payable to the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF, formerly known as the Enhanced Structural Adjustment Facility). As a result of the reconciliation, the total liability of MOFE to IMF has been agreed at MNT 38.3 billion, which represents MNT 9.95 billion higher than the amount previously recorded by the Bank. This was due to overpayments made by the Bank over the years since the early 1990s. The overpayment on behalf of MOFE has been recognised as an income by the Bank.

7. MOVEMENT IN PROVISIONS

	2001 MNT million	2000 MNT million
Provision charged for the year	**25**	575
Write back of provisions	**(54)**	(4,043)
	(29)	(3,468)

8. ADMINISTRATIVE EXPENSES

	2001 MNT million	2000 MNT million
Salaries and employee benefits	**570**	404
Communication	**318**	461
Utilities	**232**	211
Transportation and travelling	**170**	122
Security	**131**	99
Depreciation	**308**	192
Others	**477**	7,852
	2,206	9,341

The unaudited management figure for other administrative expenses in 2000 includes an assessment charged by the Government of Mongolia amounting to MNT 7.56 billion.

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

	2001	2000
Governor and Directors	**15**	18
Supervisors and Economists	**112**	109
Technical / Others	**68**	74
Branches	**91**	91
	286	292

9. OTHER OPERATING EXPENSES

	2001 MNT million	2000 MNT million
Cost of banknotes	**3,789**	1,361
Others	**73**	73
	3,862	1,434

10. TRANSFERRED TO GOVERNMENT BUDGET

Pursuant to Article 38 of the Law of Mongolia on Central Bank, the Bank of Mongolia has transferred MNT 1.5 billion in respect of last year's retained profits and MNT 1 billion in respect of current year's profit to the State Budget.

11. CASH ON HAND

	2001 MNT million	2000 MNT million
Cash in local currency	**25**	28
Cash in foreign currency	**8,042**	3,990
	8,067	4,018

12. MONETARY GOLD AND PRECIOUS METALS

	2001 MNT million	2000 MNT million
Monetary gold	**55,249**	23,792
Non-monetary gold	**9,756**	4,934
Coins and cultural valuables	**2,573**	2,573
Other precious metals	**250**	294
	67,828	31,593

The market value of monetary gold at year end is MNT 56,554 million (2000: MNT 24,481 million).

13. INVESTMENT IN FOREIGN SECURITIES

	2001 MNT million	2000 MNT million
Investment in US Government securities	**13,885**	47,829
Promissory notes	**9,927**	-
	23,812	47,829

14. DEPOSITS AND PLACEMENTS WITH FOREIGN FINANCIAL INSTITUTIONS

	2001 MNT million	2000 MNT million
Placements repayable on demand	**2,250**	7,296
Short-term time deposits	**137,505**	125,975
Allocation of SDR in IMF	**70,483**	69,719
World Bank	**1,497**	1,546
Others	**10**	10
	211,745	204,546

The short-term time deposits with maturity periods up to 30 days, bear interest at annual rates ranging from 1.58% to 5.89% (2000: 3.31% to 6.80%). Generally, the short-term time deposits are denominated in USD, EURO and GBP. Approximately 45% of such deposits are denominated in USD at an average interest rate of 1.9%.

SDR are allocated to the Bank in proportion to its subscription to the IMF. The amount allocated to the Bank is currently at SDR 51.1 million, equivalent to MNT 71 billion. This amount is offset by a corresponding liability (see note 21) and is non-interest bearing.

15. PLACEMENTS WITH, AND ADVANCES TO LOCAL FINANCIAL INSTITUTIONS

	2001 MNT million	2000 MNT million
Short-term time deposits	**2,219**	-
Refinancing loans	**130**	1,821
Loans in local currency	**1,890**	-
Loans in foreign currency	**3,108**	2,956
Other receivables	**3,068**	3,068
Gross placements and advances	**10,415**	7,845
Less: Provisions for losses	**(3,198)**	(4,864)
	7,217	2,981

The short-term time deposit with maturity up to 60 days, bears interest at annual rate of 6.363%.

15. PLACEMENTS WITH, AND ADVANCES TO LOCAL FINANCIAL INSTITUTIONS (CONTD.)

The refinancing loan was made to a local commercial bank which is currently insolvent. A full provision of MNT 130 million has been made against this loan.

The foreign currency loan was disbursed to two local commercial banks, for the onward transmission to Mongolian enterprises. The funding was made available by the German Government to promote small and medium scale companies (see also note 21).

Other receivables represents payment of USD 2.8 million made by the Central Bank to settle guarantees issued in favour of a local bank which is currently insolvent. A full provision has been made by the Central Bank against this amount.

Movement in the provision for losses is as follows:-

	2001 MNT million	2000 MNT million
Balance at 1 January	**4,864**	5,670
Charge for the year less write backs	**25**	194
Provision written off	**(1,691)**	(1,000)
Balance at 31 December	**3,198**	4,864

16. GOVERNMENT SECURITIES

	2001 MNT million	2000 MNT million
Government bonds	**13,570**	19,679
Less: Provision for diminution in value	**-**	(9,806)
	13,570	9,873

Included in the Government securities are the government bonds issued by the MOFE in 1996 to two formerly State-owned banks which had taken over the liabilities of two commercial banks that became insolvent in the same year. During the year, MOFE had paid MNT 9.8 billion and consequently the Bank of Mongolia had written off the provision made on the bonds amounting to MNT 9.8 billion.

16. GOVERNMENT SECURITIES (CONTD.)

These securities are not marketable and carried at cost. Interest on these securities is being serviced at 4.8% per annum. The securities have no identified maturity or agreed repayment plan. 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.

Movement in the provision for diminution in value is as follows:-

	2001 MNT million	2000 MNT million
Balance at 1 January	**9,806**	9,806
Charge for the year	**-**	-
Provision written off	**(9,806)**	-
Balance at 31 December	**-**	9,806

17. ADVANCES TO THE MINISTRY OF FINANCE AND ECONOMY

	2001 MNT million	2000 MNT million
Poverty Reduction and Growth Facility Loan	**38,314**	23,558

The Poverty Reduction and Growth Facility (PRGF, formerly known as the Enhanced Structural Adjustment Facility) loan refers to the MOFE portion of the total PRGF loan outstanding as at year end, which is shown in the liability side under the Foreign Currency Liabilities (see note 6 and 21).

18. LOANS TO COMPANIES

	2001 MNT million	2000 MNT million
Loans to local companies	**868**	903
Other loan	**151**	-
	1,019	903
Less: Provision for losses	**(868)**	(903)
	151	-

Loans to local company relates to the loans extended prior to the introduction of the regulation prohibiting the granting of loans to non-financial institutions. The Bank of Mongolia granted these loans to local companies for the purpose of improving the economy. These loans are in default and full provisions have been made against these loans.

Other loan represents loan granted to a local finance company under the United Nations Development Programme. The Bank of Mongolia acts as an agent to the organisation in disbursing this loan for the purpose of supporting the non-banking financial institutions to expand their services in favour of the Mongolian economy. This amount is offset by a corresponding liability (see note 21).

Movement in the provision for losses is as follows:-

	2001 MNT million	2000 MNT million
Balance at 1 January	**903**	903
Write-back for the year	**(35)**	-
Balance at 31 December	**868**	903

19. PROPERTY, PLANT AND EQUIPMENT

In MNT million	Buildings 2001	Buildings 2000	Furniture and office equipments 2001	Furniture and office equipments 2000	Computers 2001	Computers 2000	Motor vehicles 2001	Motor vehicles 2000	Capital work in progress 2001	Capital work in progress 2000	Total 2001	Total 2000
Balance at beginning of year, net of accumulated depreciation	**10,171**	1,557	**301**	169	**295**	333	**191**	190	**-**	-	**10,958**	2,249
Additions	**88**	1,190	**47**	172	**270**	64	**104**	78	**1,167**	-	**1,676**	1,504
Disposals	**(8)**	(41)	**(3)**	(7)	**(8)**	(22)	**(27)**	(33)	**-**	-	**(46)**	(103)
Revaluation	**-**	7,500	**-**	-	**-**	-	**-**	-	**-**	-	**-**	7,500
Depreciation	**(127)**	(35)	**(42)**	(33)	**(91)**	(80)	**(48)**	(44)	**-**	-	**(308)**	(192)
Balance at end of year, net of accumulated depreciation	**10,124**	10,171	**303**	301	**466**	295	**220**	191	**1,167**	-	**12,280**	10,958
Property, plant and equipment												
At cost	**10,396**	10,344	**454**	416	**732**	482	**390**	330	**1,167**	-	**13,139**	11,572
Accumulated depreciation	**(272)**	(173)	**(151)**	(115)	**(266)**	(187)	**(170)**	(139)	**-**	-	**(859)**	(614)
Net carrying amount	**10,124**	10,171	**303**	301	**466**	295	**220**	191	**1,167**	-	**12,280**	10,958

20. DEBTS ISSUED

This represents Bank of Mongolia bills issued by the Bank to local financial institutions. Such bills have maturities of between one week to three months, and bear interest at a range of between 7% to 15% per annum (2000: 5% to 10.5%)

21. FOREIGN CURRENCY LIABILITIES

	2001 MNT million	2000 MNT million
International Monetary Fund (IMF)		
- Loans received under PGRF	**51,528**	55,058
- Securities issued in respect of SDR quota	**70,483**	69,719
Loans received from foreign government		
and international organisation	**5,586**	6,629
Subscription to World Bank	**1,597**	1,597
Subscription to other international organisation	**151**	63
	129,345	133,066

Loans received under the Poverty Reduction and Growth Facility (PRGF, formerly known as Enhanced Structural Adjustment Facility) are loans granted by the IMF for terms of up 10 years and bear interest at 0.5% per annum. They are repayable in equal annual instalments over the last 5 years of the facility, the final of such repayments falling due for the Central Bank in 2003. They are denominated in SDR's.

Included under the loans received from foreign government and international organisation is a loan from the Government of Germany under the small and medium enterprise scheme in 1995. The loan bears interest of 1% per annum with a tenure of 40 years. The repayment of the loan principal will commence in 2005 (see note 15).

The subscription to other international organisation includes aid received from the United Nations Development Programme to promote the activities of non banking financial institutions in Mongolia. The funds are to be channelled via micro lending to the lower income earners (see note 18).

Securities issued in respect of SDR quota are offset by a corresponding asset (see note 14) and are non-interest bearing.

22. DEPOSITS OF MINISTRY OF FINANCE AND ECONOMY

	2001 MNT million	2000 MNT million
State budget account	**13,306**	17,936

Deposits of MOFE represent collections made by the Bank on its behalf. These are non-interest bearing and repayable on demand.

23. 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 and bears interest at the range of between 4.8% to 12.6% per annum (2000: 6.4% to 15.25% per annum).

24. OTHER LIABILITIES

Other liabilities include other government organisation accounts maintained with the Bank amounting to MNT 3.62 billion (2000: MNT 1.35 billion). Also included in other liabilities is a provision for social fund amounting to MNT 2.91 billion (2000: MNT 942 million). This fund is maintained for the welfare of the employees.

25. CHARTER FUND

The Bank of Mongolia is 100% owned by the State. The Charter Fund represents the capital of the Bank. With effect from 1 January 2002, the law has been amended to allow the Bank to increase its Charter Fund to MNT 5 billion. This has been carried out by way of the capitalisation of retained profit.

26. RESERVES

	2001 MNT million	2000 MNT million
Profit and loss account	**9,954**	3,154
General reserve	**3,405**	1,750
Revaluation reserve	**12,239**	10,395
Foreign exchange revaluation reserve	**10,424**	10,876
	36,022	26,175

In accordance to the Law of Mongolia on Central Bank (Bank of Mongolia), at least 40% of the Bank's net income is allocated to its General Reserve fund with the remaining balance transferred to the State budget account.

27. STATEMENT OF RECONCILIATION OF CHARTER AND RESERVES FUND

	2001 MNT million	2000 MNT million
Equity funds at 1 January	**27,175**	15,505
Movement in :-		
Profit and loss account	**6,800**	2,731
General reserve fund	**1,654**	-
Revaluation reserve	**1,844**	8,321
Foreign exchange revaluation reserve	**(451)**	618
Equity funds at 31 December	**37,022**	27,175

28. CASH AND CASH EQUIVALENTS

	2001 MNT million	2000 MNT million
Cash and cash equivalents are represented by the following item in the balance sheet :-		
Cash on hand	**8,067**	4,018

29. COMMITMENTS AND CONTINGENCIES

a) Foreign exchange commitments and derivatives

	2001 MNT million	2000 MNT million
Monetary gold futures trading	**38,779**	8,554
Foreign currency futures trading	**57,694**	153
	96,473	**8,707**

In the normal course of business, the Bank of Mongolia enters into foreign currency exchange contracts with third parties. As at 31 December 2001, the outstanding position of the Bank in relation to the foreign currency exchange forward and options contracts are worth approximately MNT 58 billion. All open positions as at 31 December 2001 have been closed off with the same counterpart and maturity dates.

29. COMMITMENTS AND CONTINGENCIES (CONTD.)

a) Foreign exchange commitments and derivatives (Contd.)

In 1999, the Bank Mongolia entered into a swap agreement with a financial institution which will mature in 2004. Under this agreement, the Bank exchanged 32,000 troy ounces of monetary gold for USD 8.2 million and committed to repurchase this gold at maturity at a price fixed in the agreement. The Bank of Mongolia also pays to the counterpart an annual amount of interest, which is fixed in gold ounces as compensation for interest rate differentials. This agreement is not cancellable for the Bank. The Bank's gains and losses under the agreement will depend upon the interest rate differentials between US dollars and gold deposit markets. The Bank of Mongolia is not expected to incur any material loss from this transaction.

The Bank's open position as of 31 December 2001 on monetary gold options contract is valued at MNT 30.2 million. The contractual sale value for the gold exceeds the market value of gold as at 31 December 2001.

b) Guarantees

	2001 MNT million	2000 MNT million
Guarantee granted	**480**	1,432

Guarantee granted relates to the promissory note issued by the Government to a third party and guaranteed by the Bank amounting to USD 435,000. Any payment to be made by the Bank of Mongolia will be debited to the State Budget account.

c) Legal

In the ordinary course of business, the Bank of Mongolia is subject to legal actions and complaints. The Bank's Board of Directors is of the opinion that the contingent liability, if any, as a result of such actions and complaints will not be material to the Bank.

d) Lease obligations

The Bank has no material lease obligations as of 31 December 2001.

e) Capital Commitments

On 20 July 2001, the Board of Directors of the Bank of Mongolia approved a capital commitment of approximately MNT 2.4 billion. This relates to the construction of a new building situated within the head office building area. As at the date of this report, the percentage of its completion is estimated at 45%.

30. ASSETS AND LIABILITIES BY CURRENCY

31 DECEMBER 2001 (MNT million)

	MNT	USD	SDR	Other currencies	Total
Assets					
Cash on hand	25	3,425	-	4,617	8,067
Monetary gold and precious metals	-	-	-	67,828	67,828
Investment in foreign securities	-	23,812	-	-	23,812
Deposits and placements with foreign financial institutions	71,989	52,171	21	87,564	211,745
Placements with, and advances to local financial institutions	1,890	2,219	-	3,108	7,217
Government securities	13,570	-	-	-	13,570
Advances to the Ministry of Finance	38,314	-	-	-	38,314
Loans to companies	151	-	-	-	151
Other assets	130	-	-	-	130
Property, plant and equipment	12,280	-	-	-	12,280
Total assets	138,349	81,627	21	163,117	383,114
Liabilities					
Cash in circulation	119,206	-	-	-	119,206
Debts issued	50,000	-	-	-	50,000
Foreign currency liabilities	72,231	2,475	51,528	3,111	129,345
Deposits of Ministry of Finance	13,306	-	-	-	13,306
Deposits of local financial institutions	22,495	3,427	-	659	26,581
Other liabilities	7,654	-	-	-	7,654
Total liabilities	284,892	5,902	51,528	3,770	346,092
Charter fund	1,000	-	-	-	1,000
Reserve fund	36,022	-	-	-	36,022
Total capital funds	37,022	-	-	-	37,022
Total liabilities and capital funds	321,914	5,902	51,528	3,770	383,114

31. MATURITY OF ASSETS AND LIABILITIES

The maturity of banking assets and liabilities for the year ended 31 December 2001 is as follows

	Less than 3 months	3 to 6 months	6 months to 1 year	More than 1 year	No Maturity	Total
Assets						
Cash on hand	8,067	-	-	-	-	8,067
Monetary gold and precious metals	67,828	-	-	-	-	67,828
Investment in foreign securities	13,885	-	9,927	-	-	23,812
Deposits and placements with foreign financial institutions	139,756	-	-	-	71,989	211,745
Placements with, and advances to local financial institutions	2,232	-	-	4,985		7,217
Government securities	-	-	-	13,570	-	13,570
Advances to the Ministry of Finance	-	-	-	38,314		38,314
Loans to companies	-	-	-	151		151
Other assets	58	-	72		-	130
Property, plant and equipment	-	-	-	12,280	-	12,280
Liabilities						
Cash in circulation	-	-	-	-	119,206	119,206
Debts issued	50,000	-	-	-	-	50,000
Foreign currency liabilities	-	-	-	57,264	72,081	129,345
Deposits of Ministry of Finance	13,306	-	-	-	-	13,306
Deposits of local financial institutions	26,581	-	-	-	-	26,581
Other liabilities	4,747	-	2,907	-	-	7,654
Net position	137,192	-	7,092	12,036	(119,298)	37,022
Accumulated gap	137,192	137,192	144,284	156,320	37,022	

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. As no readily available market exists for a large part of the Bank's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indictive of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2001, the following methods and assumptions were used by the Bank of Mongolia to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

a) Securities owned

Securities held by the Bank for investment purposes as at 31 December 2001 are carried at cost, respectively, less any provision for permanent diminution in value.

b) Advances to local financial institutions and loans to companies

The fair value of the loan portfolio is based on the credit and the interest rate characteristics of the individual loans. The estimation of the provision for the loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as current situation of the borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of the credit risk. The carrying amount of loans is a reasonable estimate of fair value.

c) Other financial instruments

The carrying amount of other financial instruments are a reasonable estimate of fair value.

33. SUBSEQUENT EVENT

On 28 December 2001, Parliament had approved the amendment of Article 36 of the Law of Mongolia on Central Bank (Bank of Mongolia). Pursuant to the approval by Parliament, the Charter Fund of the Bank has been increased to MNT 5 billion on 1 January 2002 via the capitalisation of the retained profit of the Bank.

Subsequent to the year end, the rate of exchange of the Togrog to the US dollar has changed to Togrog 1,104 to one US dollar, as at 21 March 2002. The inflation rate as at 31 December 2001 was 11.2% while the inflation rate as at 21 March 2002 is calculated at 2%.

34. COMPARATIVE FIGURES

The comparative figures are based on unaudited management accounts as at 31 December 2000 and for the year ended on that date. Certain comparative figures have been reclassified to conform with current year's presentation, based on information available for 2001.

35. 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.

MONEY SUPPLY

in millions of togrogs

End-of-period	Currency issued in circulation		Of which			Money (M1)		Of which
	amount	Monthly changes %	Bank's vault	Currency outside banks amount	Currency outside banks monthly changes %	amount	monthly changes %	Non-banks demand deposits (BoM)
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 12	46,095.8	11.8	4,391.4	41,704.4	14.4	64,301.6	14.7	
1997 03	41,081.9	-6.1	8,172.4	32,909.5	-7.3	52,746.1	-7.3	
06	52,775.2	8.1	7,430.6	45,344.6	4.9	67,643.8	4.9	
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 03	47,551.7	-7.0	6,050.8	41,500.9	-9.3	63,773.2	-9.5	
06	61,565.7	2.5	6,170.9	55,394.8	0.0	78,699.1	-1.2	
09	59,996.1	-2.8	5,997.4	53,998.7	-2.3	79,175.0	-1.1	
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	
2000 01	86,345.8	-5.7	8,883.8	77,462.0	-11.3	102,558.6	-10.7	
02	78,615.7	-9.0	5,756.3	72,859.3	-5.9	94,954.8	-7.4	
03	102,316.4	30.1	7,282.1	95,034.2	30.4	116,237.0	22.4	
04	120,253.9	17.5	6,275.0	113,978.8	19.9	135,686.1	16.7	
05	128,197.2	6.6	10,717.6	117,479.7	3.1	139,958.3	3.1	
06	125,507.4	-2.1	6,618.0	118,889.4	1.2	143,684.2	2.7	
07	122,881.7	-2.1	8,508.6	114,373.0	-3.8	138,547.4	-3.6	
08	122,181.8	-0.6	7,202.5	114,979.3	0.5	140,028.7	1.1	
09	120,879.8	-1.1	6,405.4	114,474.4	-0.4	143,562.4	2.5	
10	112,465.2	-7.0	6,346.3	106,119.0	-7.3	133,372.9	-7.1	
11	99,616.7	-11.4	5,565.1	94,051.6	-11.4	120,093.2	-10.0	
12	107,394.4	7.8	6,461.0	100,933.4	7.3	130,775.0	8.9	
2001 01	96,507.1	-10.1	7,624.7	88,882.4	-11.9	116,271.4	-11.1	
02	102,153.8	5.9	7,070.3	95,083.4	7.0	120,030.4	3.2	
03	99,711.6	-2.4	6,000.6	93,711.0	-1.4	123,586.3	3.0	
04	113,535.8	13.9	6,897.4	106,638.4	13.8	138,232.8	11.9	
05	125,092.2	10.2	7,527.1	117,565.1	10.2	150,926.7	9.2	
06	133,397.4	6.6	7,933.6	125,463.8	6.7	155,099.6	2.8	
07	129,263.5	-3.1	9,405.1	119,858.4	-4.5	152,484.5	-1.7	
08	125,800.4	-2.7	8,637.0	117,163.4	-2.2	150,334.6	-1.4	
09	124,288.6	-1.2	7,980.1	116,308.5	-0.7	151,808.6	1.0	
10	117,691.1	-5.3	10,397.6	107,293.4	-7.8	145,791.8	-4.0	
11	112,787.3	-4.2	11,941.5	100,845.8	-6.0	146,029.9	0.2	
12	119,205.8	5.7	10,045.1	109,160.7	8.2	156,155.3	6.9	

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
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 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
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
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 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
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
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
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
2000 01	25,096.6	108,771.2	3.3	46,519.6	44,361.8	2,157.8	62,251.5	211,329.8	-4.0
02	22,095.5	112,587.0	3.5	47,028.5	45,308.6	1,719.9	65,558.6	207,541.8	-1.8
03	21,202.8	106,197.0	-5.7	47,447.8	46,009.3	1,438.5	58,749.3	222,434.0	7.2
04	21,707.3	98,901.1	-6.9	46,338.0	45,415.9	922.1	52,563.1	234,587.3	5.5
05	22,478.6	103,030.7	4.2	48,032.6	46,044.8	1,987.8	54,998.2	242,989.0	3.6
06	24,794.8	111,573.9	8.3	49,036.2	46,967.5	2,068.8	62,537.7	255,258.1	5.0
07	24,174.3	113,293.9	1.5	51,062.0	48,989.2	2,072.8	62,231.9	251,841.3	-1.3
08	25,049.4	116,835.5	3.1	51,775.2	49,557.2	2,218.0	65,060.3	256,864.2	2.0
09	29,088.0	120,927.8	3.5	54,046.5	51,485.1	2,561.4	66,881.3	264,490.2	3.0
10	27,254.0	124,156.1	2.7	57,673.5	53,820.4	3,853.1	66,482.6	257,529.0	-2.6
11	26,041.6	125,454.6	1.0	58,232.5	53,409.9	4,822.7	67,222.1	245,547.9	-4.7
12	29,841.6	128,067.7	2.1	59,004.3	54,125.9	4,878.4	69,063.4	258,842.6	5.4
2001 01	27,389.0	133,729.3	4.4	60,985.6	55,659.6	5,326.0	72,743.7	250,000.7	-3.4
02	24,947.0	138,117.1	3.3	64,050.7	58,240.5	5,810.2	74,066.5	258,147.6	3.3
03	29,875.3	146,954.5	6.4	66,993.0	61,110.6	5,882.4	79,961.5	270,540.8	4.8
04	31,594.4	144,512.7	-1.7	69,396.6	63,557.6	5,839.0	75,116.1	282,745.5	4.5
05	33,361.6	148,965.0	3.1	69,582.0	63,952.2	5,629.8	79,383.1	299,891.7	6.1
06	29,635.9	158,846.5	6.6	72,344.0	63,382.0	8,962.1	86,502.5	313,946.1	4.7
07	32,626.1	158,491.3	-0.2	75,589.2	66,533.6	9,055.5	82,902.1	310,975.8	-0.9
08	33,171.2	170,753.7	7.7	78,608.2	68,328.2	10,280.0	92,145.5	321,088.3	3.3
09	35,500.2	165,619.9	-3.0	81,629.0	70,893.8	10,735.3	83,990.8	317,428.5	-1.1
10	38,498.4	170,310.5	2.8	85,431.2	73,854.7	11,576.4	84,879.4	316,102.4	-0.4
11	45,184.1	169,834.6	-0.3	83,664.9	75,376.6	8,288.3	86,169.7	315,864.5	-0.1
12	46,994.6	174,908.9	3.0	87,590.4	79,321.6	8,268.7	87,318.6	331,064.3	4.8

CONSUMER PRICE INDEX

in percent

End-of-period	Food items	Of which						
		Meat and meat products	Milk, dairy products	Wheat products	Sugar, candy, tea, fruits	Potatoes and vegetables	Other food items	Soft drinks, 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
				1995.12=100				
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 12	87.0	21.2	9.6	28.1			8.7	7.8
1998 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
8	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
2000 01	102.0	29.8	10.5	29.1			10.6	8.5
02	108.5	34.1	11.0	29.2			10.9	8.6
03	110.4	35.5	11.1	29.3			10.8	9.0
04	134.8	48.3	11.1	29.3			10.6	9.0
05	143.5	55.4	9.6	29.3			10.7	9.1
06	143.7	55.4	8.3	29.3			10.7	9.1
07	132.6	45.1	8.1	29.4			10.7	9.1
08	115.2	33.0	7.8	29.4			10.7	9.3
09	111.4	30.9	8.6	29.4			10.4	9.3
10	107.1	26.9	9.7	29.4			10.5	9.3
11	108.5	27.8	9.9	29.6			10.6	9.4
12	109.6	27.7	10.4	29.6			10.5	9.4
12	49.7	14.6	4.5	14.5	4.1	4.8	2.9	4.2
				2000.12=100				
2001 01	54.1	17.5	5.2	14.6	4.1	5.1	2.9	4.6
02	56.2	19.0	5.6	14.7	4.1	5.3	2.9	4.6
03	59.5	22.1	5.6	14.7	4.1	5.8	3.0	4.6
04	61.3	24.3	5.4	14.7	4.1	5.9	3.0	4.7
05	64.0	28.8	4.9	14.7	4.2	5.8	3.0	4.7
06	60.5	25.7	3.6	14.7	4.2	5.8	3.0	4.7
07	58.6	22.4	3.4	14.7	4.0	6.7	3.0	4.7
08	55.5	18.7	3.5	14.8	4.2	5.9	3.0	4.7
09	52.9	16.7	3.8	14.8	4.2	4.6	3.0	4.8
10	53.2	15.3	4.4	15.0	4.1	4.8	3.2	4.8
11	54.0	15.5	4.6	15.1	4.2	5.0	3.2	4.8
12	57.2	17.9	5.1	14.9	4.1	5.5	3.2	4.9

Since December 1995 the CPI calculation is based on the basket containing 205 consumer goods compared to 123 in previous years.
Since December 2000 the CPI calculation is based on the basket containing 239 consumer goods compared to 205 in previous years.

continued

End-of-period	Clothes, shoes	Of which						Utilities
		Cotton, fabrics	Men's clothing	Women's clothing	Adult underwear	Children's clothing	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
					1995.12=100			
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 12	20.6	0.7	2.9	6.5		2.3	8.2	27.0
1998 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
2000 01	23.4	0.6	3.1	7.0		2.4	9.9	32.7
02	23.2	0.6	3.1	6.8		2.4	9.9	31.5
03	23.1	0.6	3.1	6.8		2.4	9.8	31.6
04	23.1	0.6	3.0	6.8		2.4	9.8	31.6
05	23.1	0.6	3.1	6.8		2.5	9.8	31.6
06	23.1	0.6	3.1	6.8		2.4	9.8	31.5
07	23.1	0.6	3.1	6.8		2.4	9.8	34.2
08	23.2	0.6	3.1	6.8		2.5	9.8	34.4
09	23.2	0.6	3.1	6.8		2.4	9.8	34.6
10	23.5	0.6	3.1	7.0		2.4	9.9	38.4
11	23.8	0.6	3.1	6.9		2.5	10.2	38.9
12	23.9	0.6	3.2	7.0		2.5	10.2	42.3
	10.6	0.3	2.7	3.0		0.9	3.8	13.1
					2000.12=100			
2001 01	10.6	0.3	2.7	3.0		0.9	3.8	14.1
02	10.6	0.3	2.7	3.0		0.9	3.7	13.8
03	10.6	0.3	2.7	3.1		0.9	3.7	13.8
04	10.7	0.3	2.7	3.1		0.9	3.8	14.1
05	10.8	0.3	2.7	3.0		0.9	3.8	13.9
06	10.7	0.3	2.7	3.0		0.9	3.8	14.0
07	10.8	0.3	2.7	3.0		0.9	3.8	14.0
08	10.8	0.3	2.8	3.1		0.9	3.8	13.9
09	11.1	0.3	2.9	3.1		0.9	3.9	14.0
10	11.3	0.3	3.0	3.1		1.0	3.9	14.5
11	11.4	0.3	3.0	3.1		1.0	3.9	16.0
12	11.3	0.3	3.0	3.1		0.9	3.9	16.0

continued

End-of-period	Household items	Medicine	Transport & communi-cation	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	
						1995.12=100			
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 12	6.6	3.8	15.0	8.2	6.4	174.2	0.9	20.5	20.5
1998 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
2000 01	6.5	4.6	23.3	11.3	8.3	210.1	3.4	3.4	13.7
02	6.5	4.6	23.1	11.3	8.3	215.1	2.4	5.9	12.3
03	6.5	4.6	23.1	11.5	8.3	217.1	0.9	6.9	11.6
04	6.5	4.6	23.1	11.5	8.3	230.5	6.1	13.5	14.1
05	6.5	4.6	23.0	11.5	8.2	238.4	3.4	17.4	15.5
06	6.5	4.6	23.0	11.5	8.2	238.4	0.0	17.4	15.4
07	6.3	4.6	24.0	11.5	8.2	231.7	-2.8	14.1	13.5
08	6.4	4.6	24.1	11.6	8.2	216.1	-6.7	6.4	8.0
09	6.5	4.6	24.1	11.6	8.3	213.0	-1.4	4.9	9.6
10	6.5	4.6	24.1	11.8	8.3	213.1	0.1	4.9	9.3
11	6.5	4.6	24.1	11.8	8.2	215.0	0.9	5.9	7.6
12	6.6	4.6	24.1	11.8	8.2	219.6	2.1	8.1	8.1
	4.2	1.9	8.5	8.1	4.0	100.0	2.1	8.1	
						2000.12=100			
2001 01	4.2	1.9	8.6	8.1	4.0	105.5	5.5	5.5	10.2
02	4.2	1.9	8.6	8.1	4.0	107.2	1.6	7.2	9.4
03	4.3	1.9	8.6	8.1	4.0	110.4	3.0	10.4	11.6
04	4.3	1.9	8.5	8.1	4.1	112.6	2.0	12.6	7.2
05	4.3	1.9	8.5	8.0	4.1	114.8	1.9	14.8	5.7
06	4.3	1.9	8.5	7.9	4.1	111.5	-2.9	11.5	2.7
07	4.3	1.9	8.5	8.0	4.1	110.0	-1.3	10.0	4.3
08	4.3	1.9	8.5	7.9	4.0	107.0	-2.7	7.0	8.8
09	4.2	1.9	8.5	7.9	4.1	104.9	-2.0	4.9	8.1
10	4.3	1.9	8.6	7.9	4.1	106.2	1.2	6.2	9.3
11	4.3	1.9	8.6	7.9	4.1	108.3	2.0	8.3	10.6
12	4.3	1.9	8.6	7.9	4.1	111.2	2.7	11.2	11.2

MONETARY SURVEY

in millions of togrogs

End-of-period assets	Net foreign credit (net)	Domestic	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 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 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 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
2000 01	161,135.7	124,749.6	39,224.8	9,653.2	33,919.0	3,078.7	38,873.9	0.0	285,885.3
02	159,701.5	100,441.6	41,022.8	11,040.9	31,069.3	1,106.8	16,201.8	0.0	260,143.1
03	189,044.2	86,994.9	29,548.9	9,335.4	31,494.6	1,015.6	15,600.4	0.0	276,039.0
04	188,386.4	86,742.4	31,373.8	5,369.6	33,971.2	900.9	15,126.9	0.0	275,128.9
05	180,074.6	93,903.2	34,867.1	7,242.0	36,082.2	934.8	14,777.0	0.0	273,977.7
06	196,630.4	94,375.8	36,392.3	6,899.0	34,717.5	1,779.2	14,587.8	0.0	291,006.1
07	183,110.8	100,119.7	40,893.5	7,109.4	34,905.4	2,012.5	15,198.8	0.0	283,230.4
08	206,754.0	100,978.0	38,260.9	7,509.4	37,940.9	2,398.8	14,868.0	0.0	307,732.0
09	220,197.4	95,204.7	34,516.0	6,830.3	36,501.3	2,588.1	14,769.1	0.0	315,402.1
10	211,388.4	92,934.3	34,561.8	5,707.5	36,311.6	1,917.1	14,436.3	0.0	304,322.7
11	218,647.6	95,864.8	32,310.4	4,841.5	42,465.1	1,926.1	14,321.6	0.0	314,512.4
12	205,971.8	84,831.1	17,171.2	6,281.5	45,482.9	1,281.8	14,613.8	0.0	290,802.9
2001 01	187,939.5	96,095.0	21,698.0	6,201.3	51,727.3	1,845.7	14,622.7		284,034.5
02	181,570.0	110,399.0	31,630.7	5,635.8	57,035.9	2,010.3	14,086.3		291,969.0
03	199,864.8	107,673.8	26,210.3	5,353.6	60,415.9	1,704.0	13,989.9		307,538.6
04	200,525.9	114,597.1	27,809.4	9,323.1	62,171.6	1,729.4	13,563.7		315,123.0
05	195,754.0	126,810.1	29,216.2	8,769.8	73,588.1	1,626.9	13,609.1		322,564.1
06	222,366.1	107,107.5	9,575.3	8,915.6	76,509.5	1,420.0	10,687.1		329,473.6
07	213,219.6	106,647.1	8,425.7	9,186.4	76,332.7	1,952.3	10,750.0		319,866.7
08	220,712.6	117,241.1	13,828.3	9,410.3	81,747.7	1,786.4	10,468.4		337,953.7
09	222,664.5	116,362.0	14,208.5	8,859.0	81,368.3	1,738.6	10,187.7		339,026.5
10	224,897.1	*109,575.8*	-7,357.8	7,951.0	97,304.5	1,936.8	9,741.2		334,472.9
11	215,398.9	119,640.1	-9,723.0	10,998.9	106,309.7	2,218.1	9,836.4		335,039.1
12	222,369.7	129,259.5	-6,829.1	10,552.3	114,670.4	1,798.3	9,067.6		351,629.2

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 12	64,301.6	64,093.7	11,121.4	24,457.3	163,974.0
1997 12	76,108.9	93,956.6	3,659.2	29,347.9	203,072.6
1998 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
2000 01	102558.6	108771.2	5737.4	68818.2	285885.3
02	94954.8	112587.0	5458.6	47142.7	260143.1
03	116237.0	106197.0	3242.5	50362.5	276039.0
04	135686.1	98901.1	2951.6	37590.0	275128.9
05	139958.3	103030.7	2950.3	28038.4	273977.7
06	143684.2	111573.9	3599.2	32148.9	291006.1
07	138547.4	113293.9	3639.4	27749.7	283230.4
08	140028.7	116835.5	3800.5	47067.3	307732.0
09	143562.4	120927.8	3764.3	47147.6	315402.1
10	133372.9	124156.1	3940.2	42853.5	304322.7
11	120093.2	125454.6	3976.2	64988.3	314512.4
12	130775.0	128067.7	4173.2	27787.0	290802.9
2001 01	116,271.4	133,729.3	4,331.2	29,702.6	284,034.5
02	120,030.4	138,117.1	4,276.1	29,545.3	291,969.0
03	123,586.3	146,954.5	4,226.3	32,771.5	307,538.6
04	138,232.8	144,512.7	4,338.0	28,039.5	315,123.0
05	150,926.7	148,965.0	5,250.4	17,422.0	322,564.1
06	155,099.6	158,846.5	5,370.7	10,156.8	329,473.6
07	152,484.5	158,491.3	5,447.9	3,443.0	319,866.7
08	150,334.6	170,753.7	5,632.7	11,232.7	337,953.7
09	151,808.6	165,619.9	5,756.8	15,841.2	339,026.5
10	145,791.8	170,310.5	5,780.5	12,590.0	334,472.9
11	146,029.9	169,834.6	6,244.7	12,929.8	335,039.1
12	156,155.3	174,908.9	6,603.8	13,961.2	351,629.2

DEPOSIT INTEREST RATE

in percent

End-of-period	Deposit rates							
	Current account		Demand deposit	Time deposit				Foreign currency
	Domestic currency	Foreign currency		Domestic currency				1-3 years
				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 12	2.0		12.0-34.5	12.7-60.1	26.8			3.6-42.6
1997 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
2000 01	3.0-6.0	1.0-3.6	3.6-13.2	9.6-30.0				3.6-14.4
02	3.0-6.0	1.0-3.6	3.6-13.2	9.6-30.0				3.6-14.4
03	3.0-6.0	1.0-3.6	3.6-13.2	9.6-30.0				3.6-14.4
04	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				2.4-14.4
05	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				2.4-14.4
06	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				2.4-14.4
07	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				2.4-14.4
08	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				1.2-14.4
09	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				1.2-12.0
10	3.0-6.0	1.0-3.6	1.2-13.2	3.6-24.0				1.2-12.0
11	2.4-6.0	1.0-3.6	1.2-13.2	3.6-24.0				1.2-12.0
12	2.4-6.0	1.0-3.6	1.2-13.2	3.6-24.0				1.2-12.0
2001 01	2.4-6.0	1.0-3.6	1.2-9.6	2.4-24.0				1.2-12.0
02	2.4-6.0	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
03	2.4-6.0	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
04	2.4-4.8	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
05	2.4-4.8	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
06	2.4-4.8	1.0-3.6	1.2-9.6	2.4-25.2				1.0-18.0
07	2.4-4.8	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
08	2.4-4.8	1.0-3.6	1.2-9.6	2.4-25.2				1.0-18.0
09	0.3-4.8	0.3-3.6	1.2-9.6	2.4-24.0				1.0-14.4
10	0.3-4.8	0.3-3.6	1.2-9.6	2.4-36.0				1.0-12.0
11	0.0-4.8	0.3-3.6	1.2-9.6	2.4-36.0				1.0-12.0
12	0.0-5.1	0.3-4.2	1.2-9.6	2.4-24.0				1.0-13.2

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 12	72-109					
1997 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			
2000 01	12.3	33.4	33.1			
02	11.3	45.0	26.5			
03	11.2	36.5	31.7			
04	12.8	37.0	29.7			
05	16.1	37.3	26.7			
06	15.6	38.9	27.1			
07	15.6	32.2	30.9			
08	14.6	35.3	23.5			
09	10.9	42.7	29.3			
10	11.1	37.7	31.6			
11	6.9	32.7	26.6			
12	8.6	34.7	25.8			
2001 01	4.76	38.8	23.7			
02	11.2	40.1	27.2			
03	11.2	38	21.5			
04	11.7	37.9	21.6			
05	12.5	37.6	24.2			
06	12.49	34.5	22.8			
07	11.08	33.9	20.7			
08	10.2	35	23.5			
09	9.9	37.4	21.4			
10	6.73	36.2	25.5			
11	6.51	37.4	23.3			
12	8.61	41.4	22.2			

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 12	693.51	692.76		445.82	0.45	132.37	63.37		860.82	5.98	514.28	1172.48	89.64
1997 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
2000 01	1087.61	1080.76	1065.97	545.02	0.55	162.51	77.47	26.42		10.17	661.87	1765.63	139.79
02	1092.75	1089.17	1061.06	542.51	0.55	161.76	77.11	26.30		9.97	660.27	1737.85	140.41
03	1090.00	1091.83	1065.15	544.60	0.55	162.38	77.41	26.40		10.20	670.60	1736.04	140.01
04	1035.00	1059.63	970.21	496.06	0.50	147.91	70.51	24.05		9.77	617.39	1630.95	132.88
05	1032.70	1024.68	963.15	492.45	0.50	146.83	69.99	23.88		9.65	615.07	1538.26	132.53
06	1065.00	1053.57	997.59	510.06	0.52	152.08	72.50	24.73		10.18	643.00	1598.62	136.69
07	1075.37	1071.32	993.05	507.74	0.51	151.39	72.17	24.62		9.82	641.57	1616.66	137.90
08	1082.54	1078.78	976.99	499.53	0.50	148.94	71.00	24.22		10.15	633.06	1592.58	138.79
09	1085.62	1084.14	957.25	489.43	0.49	145.93	69.57	23.73		10.05	628.98	1583.43	139.21
10	1096.00	1089.74	920.26	470.52	0.48	140.29	66.88	22.81		10.07	605.17	1591.06	140.52
11	1097.00	1096.61	919.67	470.22	0.47	140.20	66.84	22.80		9.91	604.17	1536.07	140.83
12	1097.00	1097.00	1006.61	514.67	0.52	153.46	73.15	24.95		9.74	659.53	1615.11	140.66
2001 01	1099.00	1097.77	1020.31	521.68	0.53	155.55	74.15	25.29		9.40	668.53	1611.46	140.91
02	1098.00	1098.99	993.42	507.93	0.51	151.45	72.19	24.63		9.43	648.28	1588.75	140.78
03	1097.00	1098.00	977.04	499.55	0.50	148.95	71.00	24.22		8.93	623.40	1563.83	140.66
04	1091.00	1092.95	985.34	503.79	0.51	150.21	71.61	24.43		8.80	640.71	1573.33	139.88
05	1095.00	1092.67	943.18	482.24	0.49	143.79	68.54	23.38		9.10	617.67	1548.06	140.39
06	1097.00	1096.00	936.51	478.83	0.48	142.77	68.06	23.22		8.82	616.15	1551.05	140.65
07	1098.00	1096.67	964.37	493.08	0.50	147.02	70.08	23.91		8.87	638.78	1567.23	140.77
08	1099.00	1098.43	1006.46	514.60	0.52	153.43	73.14	24.95		9.18	662.47	1591.08	140.90
09	1099.00	1099.50	1013.20	518.00	0.52	154.50	73.60	25.10		9.40	689.70	1607.60	140.90
10	1100.00	1099.57	982.90	502.60	0.51	149.80	71.40	24.40		9.00	666.80	1574.80	141.00
11	1100.00	1100.00	966.20	494.00	0.50	147.30	70.20	24.00		8.87	661.40	1545.60	141.00
12	1102.00	1101.29	973.60	497.60	0.50	148.40	70.80	24.10		8.39	657.30	1598.60	141.30

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 12	0.12	83.57	0.82	506.86								999.35
1997 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
2000 01	38.01	131.38	0.97	753.01	694.17	28.92	0.15	286.21	636.36	307521.73	5601.65	1482.71
02	38.06	132.00	0.96	753.62	671.55	28.94	0.15	257.57	640.27	319356.19	5368.96	1469.96
03	38.44	131.66	0.98	745.20	666.37	28.89	0.15	287.62	635.05	310541.00	5442.91	1459.80
04	36.22	125.02	0.93	702.36	613.60	27.28	0.13	272.37	609.18	289748.30	4846.19	1384.96
05	36.51	124.77	0.91	687.37	593.23	26.42	0.12	271.76	596.52	281514.02	4743.50	1355.15
06	37.81	128.67	0.95	717.95	632.34	27.26	0.12	281.02	614.86	301288.50	5261.10	1417.14
07	38.65	129.89	0.96	729.31	627.53	25.85	0.12	282.99	620.49	298468.94	5328.46	1415.55
08	39.06	130.74	0.97	729.03	620.89	26.56	0.13	284.88	630.12	296615.96	5293.62	1413.29
09	39.01	131.13	0.96	729.56	594.97	25.46	0.12	285.69	621.78	295994.29	5319.54	1407.44
10	39.38	132.40	0.96	716.62	572.61	25.01	0.12	288.42	624.39	290166.00	5206.00	1398.99
11	39.33	132.52	0.91	709.07	572.80	25.20	0.12	288.68	624.18	292624.75	5112.02	1398.96
12	39.18	132.52	0.89	720.81	608.56	26.10	0.12	288.68	634.84	300358.60	5062.66	1426.96
2001 01	38.74	132.75	0.86	730.48	599.12	25.67	0.12	289.21	629.15	291235.00	5297.18	1415.57
02	38.25	132.66	0.88	713.50	573.65	25.48	0.11	288.95	629.05	283942.80	4864.14	1411.76
03	38.12	132.53	0.84	700.29	542.41	24.80	0.11	288.68	615.15	287797.95	4771.95	1388.36
04	37.71	131.81	0.82	707.18	558.32	23.88	0.09	287.77	599.88	288624.05	4800.40	1388.05
05	37.60	132.29	0.85	709.50	570.99	24.08	0.10	288.16	607.05	305778.75	5026.05	1377.52
06	37.66	132.54	0.84	719.79	566.55	24.23	0.10	288.68	602.38	298877.65	4760.98	1370.43
07	37.50	132.66	0.84	716.15	557.29	24.04	0.11	288.95	609.83	292562.10	4677.48	1385.18
08	37.42	132.78	0.86	713.66	587.69	24.72	0.13	289.21	627.57	302609.65	4654.27	1408.25
09	37.30	132.80	0.85	701.70	539.00	24.90	0.12	289.20	631.90	318847.40	4951.00	1423.20
10	37.10	132.90	0.85	698.70	551.90	24.50	0.11	289.50	601.80	304865.00	4647.50	1394.00
11	36.70	132.90	0.86	687.20	570.00	24.80	0.10	289.50	599.10	300685.00	4477.00	1388.80
12	36.20	133.10	0.83	691.00	559.70	24.90	0.11	290.00	595.90	306080.50	4937.00	1382.40

BALANCE OF PAYMENTS

in millions of dollar

	1995	1996	1997	1998	1999	2000	2001[1]
Current account	38.9	-36.9	102.9	-75.6	-51.4	-70.0	-75.7
Trade balance	-22.0	-87.4	65.1	-120.1	-112.9	-140.2	-150.4
Exports F.O.B	451.0	423.4	568.5	462.3	454.2	535.8	459.9
Of which : Copper concentrate	257.6	174.5	211.4	124.8	119.2	160.3	145.0
Non-monetary gold	-	52.4	117.0	117.2	95.9	69.7	74.7
Combed cashmere	44.4	51.6	30.9	33.0	45.9		
Other	149.0	144.9	209.2	187.3	193.3	305.8	240.2
Imports C.I.F	-473.0	-510.8	-503.4	-582.4	-567.1	-676.0	-610.3
Service balance	9.2	-6.0	-2.1	-11.6	-13.1	-17.6	-26.1
Receipts	57.3	55.7	52.7	77.9	75.8	77.5	86.6
Payments	-48.1	-61.7	-54.8	-89.5	-88.9	-95.1	-112.7
Income, net	-25.4	-13.3	-12.0	0.4	0.1	-6.5	6.6
Interest payments	0.0	-9.3	-9.4	-9.2	-6.2	-9.1	-9.4
Transfer, net	77.1	69.8	51.9	55.7	74.5	94.3	94.2
Private unrequited transfers	0.0	6.2	4.2	2.5	7.4	-4.3	6.8
Public unrequited transfers	77.1	63.6	47.7	53.2	67.1	98.6	87.4
Capital account	-16.9	41.3	27.0	128.6	69.5	89.8	121.3
Medium and long term	32.3	72.0	104.3	124.1	124.2	136.4	135.2
Direct investment	9.8	15.9	25.0	18.9	30.4	53.7	63.0
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan disbursements, net	22.5	56.1	79.3	105.2	93.8	82.7	72.2
Of which: Disbursements	83.0	93.4	116.2	122.4	112.3	156.6	163.7
Amortization	-60.5	-37.3	-36.9	-17.2	-18.5	-73.9	-91.5
Short term	-49.2	-30.7	-77.3	4.5	-54.7	-46.6	-13.9
Commercial bank, net	-15.3	-9.3	-18.1	40.0	-17.7	-13.0	1.4
Non-banks	-33.9	-21.4	-59.2	-35.5	-37.0	-33.6	-15.3
Errors and omission	11.4	-26.9	-75.1	-51.4	24.0	-18.8	-56.7
Overall balance	33.4	-22.5	54.8	1.6	42.2	1.0	-11.1
Financing	-33.4	22.5	-54.8	-1.6	-42.2	-1.9	11.1
Increase in net official reserves (-)	-33.4	16.6	-55.0	-5.6	-37.4	-1.0	11.1
Use of IMF credit	-10.7	-3.1	6.2	0.8	3.1	1.7	-1.7
Arrears accumulation (+)/payments (-)	0.0	5.9	0.2	4.0	-4.8	0.0	0.0
Exceptional financing (rescheduling)	0.0	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	0.0
Memorandum items :							
Current account deficit (in percent of GDP)	5.2	-4.0	9.9	-7.0	-5.2	-5.8	7.4
Gross official reserves	100.8	97.8	139.9	123.2	155.9	181.9	206.7
In weeks of imports	11.1	10.0	14.5	11.0	14.3	15	17.7

[1] Preliminary

BANKS' BRANCHES AND UNITS

end of December 2001

		Arkhangai	Bayan-Olgii	Bayankhongor	Bulgan	Govi-Altai	Govisumber	Darkhan-Uul	Dornogovi	Dornod	Dundgovi	Ovorkhangai	Omnogovi	Zavkhan	Orkhon	Sukhbaatar	Tov	Uvs	Hovsgol	Khovd	Khentii	Selenge	Ulaanbaatar city	Total branches, unit
1	Agricultural bank	18	13	19	16	19	1	10	15	14	15	18	14	22	3	13	27	19	23	17	19	12	4	331
2	Trade & Development bank							2	2	1					1							2	8	16
3	Saving bank		1	1				1							1			1	1	1			31	38
4	Golomt bank							1							1								10	12
5	Post bank	1	2	2	1	1	2	4	2	1	1	13	1	2	2	1	1	1	2	17	1	7	1	66
6	Erel bank							1															3	4
7	Ulaanbaatar city bank																					2	16	18
8	Shinechlel												1										2	3
9	Transport & Development																						4	4
10	Credit bank						1																1	2
11	Zoos bank							1				1			1			1				1	4	9
12	Anod bank																			1		2	7	10
13	Inter bank																						1	1
14	Kapitron																						1	1
15	KHAS	1		1		1	1	1	1		1	1	1	1	1				1		1	1	8	22
16	Menatep																						1	1
	Total branches, unit	20	16	23	17	21	5	21	20	16	17	33	17	25	10	14	28	22	27	36	21	27	102	**538**

MAIN ECONOMIC INDICATORS

in percent

	1996	1997	1998	1999	2000	2001
GDP growth	2.4	4.0	3.5	3.2	1.1	1.1
Annual inflation rate, end of the year (1995=100)	44.6	20.5	6.0	10.0	8.1	11.2
Industrial output growth (at 1995 prices)	-2.5	4.4	3.6	1.2	2.4	11.8
Unemployment rate	6.5	7.5	5.8	4.6	5.0	4.7
Export changes	-6.1	34.3	-18.6	-1.8	18.0	-14.2
Import changes	8.0	-1.4	15.7	2.8	19.2	-9.7
Budget overall deficits (percentage of GDP)	7.5	7.8	12.2	10.6	6.8	4.0
Currency issued in circulation (changes)	54.7	23.2	8.8	48.2	17.2	11.0
Narrow money M1 (changes)	50.9	18.4	8.5	39.0	13.9	19.4
Broad money M2 (changes)	25.9	32.5	-1.7	31.7	17.5	27.9
Exchange rate (Togrog=1USD, changes)	46.4	17.3	10.9	18.9	2.3	0.5

The Bank of Mongolia
Baga toiruu 9
Ulaanbaatar 46
Mongolia
Tel: 976-1 322166
Fax: 976-1 311471
Telex: BOMCB MH 79333
http://www.mongolbank.mn/