THE BANK OF MONGOLIA

ANNUAL REPORT 2004

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Governor of the Bank of Mongolia Ochirbat CHULUUNBAT

GREETINGS FROM THE GOVERNOR

Ladies and Gentlemen,

I am delighted to present Annual Report 2004 of the Bank of Mongolia that covers implementation of the state monetary policy and activities of the Bank of Mongolia as the Central bank.

For Mongolia, 2004 was a year with full of social, political and economic highlights. Real economic growth has reached two digit number, or to be specific 10.6 percent, for the first time since the transition to market economy and the main supporters for such high growth are mining and quarrying, agricultural, service, and banking and financial sectors. Furthermore, we must mention Parliamentary election, higher than expected inflation, which is mostly due to sharp increase in prices of oil products, and improved budget and foreign trade standing due to stable growth in prices of our main export products. Implementation of the monetary policy towards maintaining the stablility of the financial sector has also been successful.

Beginning from the second half of 2004, increase in prices of consumer goods, which drove the inflation to double digit number, is resulted by sharp increase in oil product price or supply side shock. This tendency is deemed to further continue; consequently, the Bank of Mongolia has started taking policy measures to neutralize the price increase through limiting money supply growth and increasing the discount rate. In other words, we have been tightening the monetary policy and maintaining the long term inflation at lower level. At the end of the year, the inflation was 11.0 percent.

Although the exchange rate of MNT against USD depreciated as public switched their domestic currency denominated assets to foreign currency assets because of rumors spread among the public after the Parliamentary election and as the demand for foreign currency increases with rapid economic growth, sharp depreciation was neutralized as the Central bank took appropriate floating exchange rate policy and private remittances from Mongolian citizens working abroad increased. In 2004, MNT exchange rate depreciated by 3.4 percent. Exchange rate of major currency, USD, at the world market has been depreciating throughout the whole year; nevertheless, as a result of appropriate reserve policy, foreign reserve increased to USD 163.6 million with an increase of 26.8 percent from the previous year.

Activities of banks and financial institutions has been stabilized and expanded to deepen financial intermediation. For instance, total assets of the banking sector increased by 30.3 percent, 56.8 percent of which is an increase of net loan, capital by 51.0 percent, and total deposits by 42.5 percent. Furthermore, the number of non-bank financial institution increased by 31 to reach 114 during the reporting year. I would like to specially point out here that the Bank of Mongolia puts greater emphasis on quality of financial institutions rather than the quantity.

Several measures were taken to improve and bring up activities of banks and financial institutions to international standards, and to establish legal environment to create such opportunity. Amendments to the regulation of state foreign reserve management, new regulations on non bank financial activities, approval of a regulation, which better complies with international principles, on asset classification and establishing provision funds can be mentioned as examples. Moreover, new law on Deposit Insurance has been drafted and presented to the Parliament for an approval.

Now we face objectives of continuously implementing the state monetary policy in agreement with world and domestic economic situations, maintaining successes of banking and financial sector while supporting micro financing activities that are to promote small and medium businesses, bringing up inter-bank transactions to the most advanced level, and encourage mortgage loans.

The Governor of the Bank of Mongolia

O.Chuluunbat

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1 BRIEF REVIEW OF THE WORLD ECONOMY

1.1 Economic prospects and policy issues

Over the past year, the global recovery has become increasingly well established, with global GDP growth now projected to average 5 percent in 2004, the highest for nearly three decades. This has been accompanied by a strong upturn in industrial production and global trade flows; a pickup in private consumption growth, underpinned by generally improving labor market conditions; and continued strength in investment, as postbubble corporate balance sheet restructuring has proceeded.

From a regional perspective, the recovery has become increasingly broad based, but some regions continue to grow more vigorously than others. Global growth continues to be driven by the United States, with strong support from Asia; activity in Latin America and some other emerging markets has also picked up strongly. The recovery in the euro area is becoming more established, but remains relatively weak and is heavily dependent on external demand. Despite stronger growth outside the United States, the U.S. current account deficit has continued to deteriorate over the past year, offset by higher surpluses in Japan and the euro area. Current account surpluses in emerging Asia have remained very high — notwithstanding generally strengthening domestic demand — aided by buoyant electronics exports but also by the competitiveness of exchange rates in that region.

The sharp rise in oil prices has contributed to the weakening of the expansion in recent months, and will likely continue to do so for several quarters. In the oil market, prices have risen sharply, underpinned by a combination of surging demand and—particularly from the second quarter—supply-side concerns in several major oil-exporting countries, including Iraq, Russia, and Venezuela. This has been exacerbated by low excess capacity and speculative activity.

After falling to unusually low levels in mid-2003, inflation across the world has turned up with higher oil price. Inflationary risks vary across countries and regions, but in most appear moderate, given substantial excess capacity in many countries; generally moderate wage settle-

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

	2002	2003	2004	2005
			Current projections	
World output	3.0	3.9	5	4.3
Advanced economies	1.6	2.1	3.6	2.9
United States	1.9	3.0	4.3	3.5
Euro area	0.8	0.5	2.2	2.2
Germany	0.1	-0.1	2.0	1.8
France	1.1	0.5	2.6	2.3
Italy	0.4	0.3	1.4	1.9
Spain	2.2	2.5	2.6	2.9
Japan	-0.3	2.5	4.4	2.3
United Kingdom	1.8	2.2	3.4	2.5
Canada	3.4	2.0	2.9	3.1
Other advanced economies	3.6	2.4	4.3	3.5
Newly industrialized Asian economies	5.0	3.0	5.5	4.0
Other emerging market and developing countries	4.8	6.1	6.6	5.9
Africa	3.5	4.3	4.5	5.4
Central and eastern Europe	4.4	4.5	5.5	4.8
Commonwealth of Independent States[1]	5.4	7.8	8.0	6.6
Russia	4.7	7.3	7.3	6.6
Excluding Russia	7.0	9.0	9.6	6.5
Developing Asia	6.6	7.7	7.6	6.9
China	8.3	9.1	9.0	7.5
India	5.0	7.2	6.4	6.7
ASEAN-4[2]	4.3	5.1	5.5	5.4
Middle East	4.3	6.0	5.1	4.8
Western Hemisphere	-0.1	1.8	4.6	3.6
Brazil	1.9	-0.2	4.0	3.5
Mexico	0.8	1.3	4.0	3.2
World trade volume (goods and services)	3.3	5.1	8.8	7.2
Import				
Advanced economies	2.6	3.7	7.6	5.6
Other emerging market and developing countries	6.0	11.1	12.8	11.9
Export				
Advanced economies	2.2	2.6	8.1	6.3
Other emerging market and developing countries	6.6	10.9	10.8	10.6
Commodity prices (U.S dollars)				
Oil	2.5	15.8	28.9	
Nonfuel (average based on world commodity export weights)	0.6	7.1	16.8	-3.9
Consumer prices				
Advanced economies	1.5	1.8	2.1	2.1
Other emerging market and developing countries	6	6.1	6	5.5
Six-month London interbank offered rate (LIBOR, percent)				
On U.S. dollar deposits	1.9	1.2	1.6	3.4
On Japanese yen deposits	0.1	0.1	0.1	0.3
On euro deposits	3.3	2.3	2.2	2.8

[1] Mongolia, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic stucture.
[2] Includes Indonesia, Malaysia, the Philippines, and Thailand.

ments relative to productivity growth; strong corporate profitability, providing scope for firms to absorb price pressures; and reasonably well-anchored inflationary expectations.

In foreign exchange markets, rising expectations of higher U.S. interest rates and buoyant growth contributed to a moderate appreciation in the U.S. dollar in April. Since then, despite some volatility, the major currencies have moved rather little in trade-weighted terms, with a moderate depreciation of the U.S. dollar and yen accompanied by small appreciations of the euro and the pound. Most emerging market currencies have depreciated, notably in Asia and in Latin America, partly reflecting the deterioration in external financing conditions. Aided by rising real yields, the U.S. current account deficit has continued to be financed without major difficulty.

United States and Canada

In the United States, the economic expansion remained generally strong early this year, with real GDP growth slowing to 2.75 percent from 4.75 percent in the first quarter. Personal consumption growth fell back markedly, apparently reflecting a combination of higher oil prices, weaker-than-expected employment growth, and a sharp fall in spending on durable goods. Net exports made a large negative contribution to growth, mainly the result of a sharp increase in imports, and the current account deficit widened to 5.75 percent of GDP. By contrast, business fixed investment accelerated, underpinned by the continued healthy growth of profits and temporary accelerated depreciation allowances. Economic slack remained, with manufacturing capacity utilization below its long-term average and the unemployment rate higher than most estimates of the natural rate, reflecting continued rapid labor productivity growth. The rise in core CPI inflation from 1.1 percent in December to 1.7 percent in August was due in part to insrcreases in the prices of crude and intermediate materials, reflecting the strength of the global expansion, and the elimination of one-off factors that lowered inflation in 2003.

Looking forward, output growth is projected to pick up in the second half of 2004, supported by continuing strength in profits and household labor income, as well as the restoration of incentives for automobile purchases, and stay above potential through 2005–06. The current account deficit is projected to narrow to 5 percent of GDP in 2005 but—assuming no further real depreciation of the U.S. dollar. Given impending demographic pressures and the need to establish a sustainable fiscal position, fiscal policy should aim to bring the federal government budget back to balance by the end of the decade. The Federal Reserve has raised the key federal funds rate due to the inflationary effects of oil prices.

In Canada, the economic expansion has gained momentum, reflecting both the global expansion and low domestic interest rates. Real GDP growth accelerated to 4.25 percent in the second quarter. Personal consumption is being driven by surging employment, rising disposable income, and a buoyant housing market; business investment, by robust profitability; and exports, by global demand, especially from the United States, despite the appreciation of the

Table 2. Growth of GDP, inflation (USA, Euro area and Japan)

	Growth of GDP%					Inflation (%)				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
USA	3.7	0.8	1.9	3.0	4.3	3.4	2.8	1.6	2.3	3.0
Euro area	3.5	1.6	0.8	0.5	2.2	2.0	2.4	2.3	2.1	2.1
Japan	2.8	0.4	-0.3	2.5	4.4	-0.9	-0.8	-0.9	-0.2	-0.2

Source: World economic outlook

Canadian dollar. Strong export volumes and higher world commodity prices are projected to boost the current account surplus to about 3 percent of GDP this year. Given the generally robust economic outlook, monetary policy will likely need to continue removing stimulus gradually over the coming months.

Western Europe

The recovery in the euro area has finally gained some momentum, with GDP growth projected to rise to 2.2 percent in 2004. However, the upturn remains moderate and has so far been heavily dependent on external demand; and while industrial production and business confidence are gradually improving, consumer confidence and retail sales continue to lag. That said, aggregate figures disguise substantial differences within the region. In particular, the composition of growth varies markedly, with final domestic demand growing strongly in France and Spain, but weaker in Italy and dormant in Germany. Developments in Germany partly reflect slow household income growth in the context of ongoing labor market adjustments, and some increased savings by households in response to cuts in future benefits under recent pension reforms.

Looking forward, the recovery is projected to be increasingly supported by domestic demand, as private consumption is boosted by rising disposable incomes, and investment picks up as corporate balance sheet restructuring. Nonetheless, with GDP growth in the remainder of 2004 and 2005 expected to exceed potential[1] only modestly, the output gap will remain substantial, and area-wide unemployment will decline only marginally. Elevated housing prices in some countries, notably Ireland and Spain are also a concern.

After slowing in early 2004, headline inflation has again risen above 2 percent, driven by higher energy prices and hikes in indirect taxes and administrative prices; core inflation has remained stable at 1.75 percent. Given substantial excess capacity, the lagged effect of the past appreciation of the euro, and continued wage moderation, inflation is projected to fall back below 2 percent in 2005. Short- and long-term inflationary expectations still appear well-grounded and the EBC's monetary policy should therefore remain accommodative until a self-sustaining upturn in domestic demand is in place.

[1] Potential GDP refers to the highest level of real Gross Domestic Product that can be sustained. GDP gap is the difference between real and potential GDP

Figure 1. World Real GDP growth

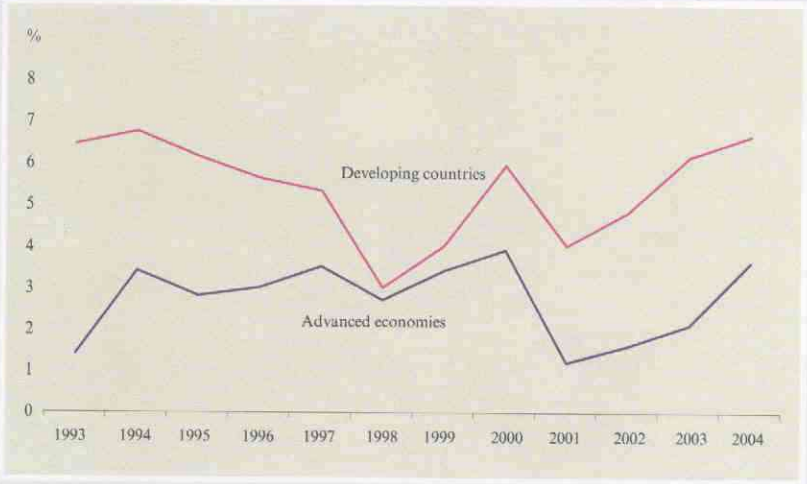


Figure 2. World Inflation rate

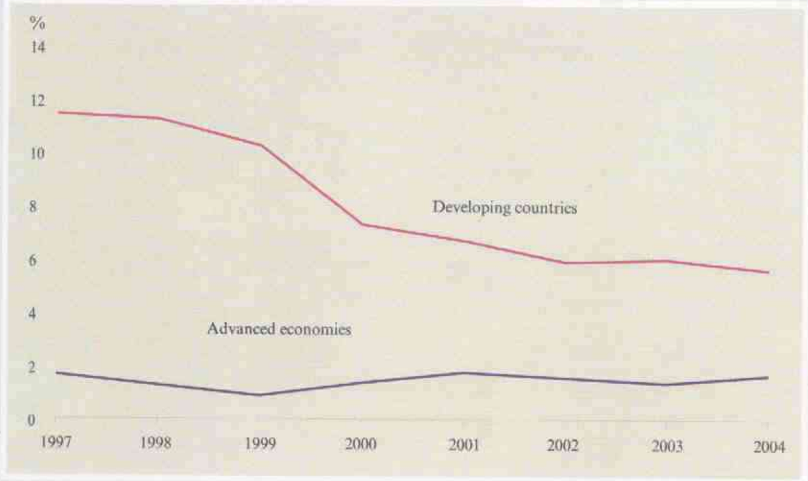


Figure 3. World long-term and short term interest rate

Japan

In Japan, real GDP grew very strongly in the first quarter of 2004, with exports, especially to Asia, and business fixed investment remaining key driving forces, although a pickup in private consumption growth also contributed, as consumer confidence improved with the increasingly sustained recovery and firming labor market conditions. In contrast, second-quarter growth turned out to be weaker than expected, primarily on account of a sharp drop in inventory accumulation and a larger-than-expected decline in public investment. However the outlook remains for a sustained, broad-based expansion, and GDP growth is now projected to accelerate to 4.4 percent in 2004.

With the gradual reduction in economic slack over the past year, deflationary pressures have eased. The 12-month fall in the core CPI narrowed to 0.2 percent in July, reflecting the declining output gap and temporary influences such as oil prices. As the prospects for an end to deflation[2] have improved significantly but such an outcome is far from guaranteed, the current monetary stance is appropriate and should be maintained until inflation is firmly positive.

With improved economic prospects, policymakers now face the daunting task of addressing Japan's difficult fiscal position. Gross public debt stood at 166 percent of GDP at end-2003—the highest among advanced economies by a substantial margin, although net debt, while rising, is considerably lower at 80 percent of GDP at end-2003—and the structural deficit (including social security but excluding bank support) was 6.5 percent of GDP in FY2003.

With population aging posing further challenges in the medium term, the recent reform of the public pension system was a step in the right direction. However, the reform relies heavily on increases in contribution rates, which are likely to hurt economic growth, and it deepens intergenerational inequality as the younger generations will bear most of the burden of the reform.

Emerging Asia

Growth in emerging Asia has continued to exceed expectations, despite the adverse impact of higher oil prices on many countries, underpinned by the global recovery; very strong growth in China; the recovery in the global information technology sector; generally supportive macroeconomic policies, including highly competitive exchange rates; and, increasingly, solid domestic demand growth, including in fixed investment. From mid-2003 to the first quarter in 2004, the regional growth rate averaged over 10 percent, with particularly rapid growth in China and the Asian newly industrialized economies. This has raised fears that China, despite some slowing in the second quarter, is at risk of overheating; some other economies, including Singapore, also appear to be increasingly close to capacity

[2] Deflation is a decrease in the general price level. For example, deflation started in Japan in the early 1990s. Systemic reasons for deflation in Japan includes the fallen asset prices, insolvent companies and banks, and imported deflation.

Higher real interest rates in the United States could adversely affect countries relying on external budget financing (Indonesia and the Philippines), but in countries experiencing large capital inflows, this could facilitate monetary policy management. External current account surpluses have generally remained strong across the region, reflecting in part a relatively faster acceleration in external demand growth compared with domestic demand growth; stable or depreciating real exchange rates; gains in market shares in services, especially in South Asia; and, in the case of South Asia and China, increased remittances. Net private capital flows to the region—with China and India being the largest recipients—while slowing, have remained large. Gross external reserves are projected to increase by some further $230 billion to nearly $1.5 trillion by end-2004, equivalent to nine months of imports, and about eight times larger than shortterm debt.

In both Australia and New Zealand, GDP growth is expected to remain robust in 2004, underpinned by strong exports and commodity prices and buoyant domestic demand. Monetary policy has been tightened in both countries over the past year. While core inflation appears subdued, aided by past real exchange rate appreciation, further interest rate increases are likely to be necessary, particularly in New Zealand, given favorable near-term growth prospects, low unemployment rates, and high rates of capacity utilization.

Latin America

In Latin America, economic activity is rebounding strongly this year, supported by a pickup in domestic demand underpinned by easier monetary conditions in most countries and the robust global expansion. Higher oil prices are benefiting major oil exporters, such as Colombia, Ecuador, Mexico, and Venezuela, but hurting oil importers, especially countries in Central

Table 3. Growth of GDP, inflation (Asian countries)

	Growth of GDP%					Inflation (%)				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
China	8.0	7.5	8.3	9.1	9.0	0.4	0.7	-0.8	1.2	4.0
Korea	8.5	3.8	7.0	3.1	4.6	0.7	3.5	2.8	2.3	3.5
Australia	3.2	2.5	3.8	3.0	3.6	4.4	3.6	2.4	3.0	3.3
Taiwan Province of China	5.9	-2.2	3.6	3.3	5.6	-1.7	0.6	-1.0	-2.1	0.1
Hong Kong SAR	10.2	0.5	1.9	3.2	7.5	-6.2	-1.9	-3.6	-5.2	-2.5
Singapore	9.7	-1.9	2.2	1.1	8.8	4.3	-1.6	0.4	-0.4	1.8
New Zealand	3.8	2.6	4.3	3.4	4.2	2.5	4.5	0.6	1.8	3.7
India	5.4	3.9	5.0	7.2	6.4	4.0	3.8	4.3	3.8	4.7
Pakistan	3.4	2.7	4.4	6.2	6.3	4.4	3.1	3.2	2.9	4.6
Indonesia	4.9	3.5	3.7	4.1	4.8	3.8	11.5	11.8	6.8	6.5
Thailand	4.8	2.1	5.4	6.8	6.2	1.6	1.7	0.6	1.8	2.7
Philippines	4.4	1.8	4.3	4.7	5.2	4.3	6.1	3.1	3.0	5.4
Malaysia	8.9	0.3	4.1	5.3	6.5	1.5	1.4	1.8	1.1	2.2

Source: World economic outlook

America, the Dominican Republic, and Uruguay. The rise in nonfuel commodity prices is leading to trade gains in exporters of metals (Chile, Jamaica, and Peru) and agricultural products (Argentina, Bolivia, Brazil, Ecuador, and Paraguay).

External financing conditions became less buoyant as the rise in U.S. interest rates prompted investors to reduce their demand for Latin American securities. However, sovereign borrowers had already fulfilled most of their funding requirements for 2004 and spreads have since returned to near their historical lows. Gross debt issuance remained heavy in the first half of the year, as borrowers locked in low interest rates and extended maturities. Looking beyond 2004, many countries have large external financing requirements and remain vulnerable to external shocks (such as an abrupt rise in global interest rates, commodity price volatility, or a weakening of global growth) and adverse domestic developments (such as political uncertainties, policy slippages, or social upheaval). The economic rebound and still relatively favorable external financing conditions provide a window of opportunity for governments to build resilience and set the stage for sustained growth.

Emerging Europe

In emerging Europe, GDP growth is projected to rise to 5.5 percent in 2004, with a stronger than expected upturn in much of central and southern Europe, led by Poland and Turkey, more than offsetting moderating—but still very strong—growth in the Baltics Looking forward, GDP growth is expected to remain well-sustained in 2005, underpinned by rising domestic demand and strong export growth. Stronger activity, combined with higher oil prices, has led to a pickup in inflation—except in Turkey and Romania—and in some new European Union (EU) members is significantly above the Maastricht target. For similar reasons, regional current account deficits remain very high, and outside Turkey little improvement is expected in 2005.

In the immediate future, the risks to the outlook appear broadly balanced. However, most countries are vulnerable to higher oil prices, which, apart from adversely affecting growth, could also add to pressures on inflation and current accounts. The weakness in euro area domestic demand—especially in Germany, a key regional trading partner—remains sluggish. Looking forward, high external deficits—and linked to that, the high fiscal deficits—in a number of countries remain a key concern, especially given that they are increasingly debt financed.

On May 1, 2004, 10 countries in the region joined the European Union, with Bulgaria and Romania—and possibly Croatia, which will begin accession negotiations in early 2005—expected to follow later this decade. Following this historic enlargement, Estonia, Lithuania, and Slovenia have moved quickly to join the Exchange Rate Mechanism (ERM2), the precursor to Economic and Monetary Union (EMU), with Latvia expected to follow shortly. Most other countries aim to join toward the end of the decade, although much remains to be done—especially on the fiscal side—if this timetable is to be met. More generally, as the experience of previous entrants—notably Greece through the mid-1990s—has shown, EU accession facilitates, but does not guarantee, rapid growth.

Commonwealth of Independent States

Sharply higher than expected world prices and demand for crude oil and metals have added to the already strong growth momentum in the CIS region, with economic activity expanding rapidly in the first half of 2004. Buoyant export growth has increasingly been supported by strong domestic demand, with production in most manufacturing sectors and construction rising strongly. The latter reflects in part the spillover from the external stimulus, including the massive oil and gas sector expansion (which has boosted investment in related sectors such as transportation and infrastructure), but also strong wage growth and favorable liquidity conditions.

Given the stronger-than-expected current growth momentum, and with oil and metals prices projected to remain high for longer, short-term prospects are considerably more favorable. Regional GDP growth is now projected to remain at 8 percent in 2004 and to moderate to 6.6 percent in 2005, as consumption and investment growth slows to more sustainable levels. Near-term risks appear broadly balanced, with movements in oil prices—in either direction—having a critical impact on the outlook.

Despite continued rapid money and credit growth—and rising producer prices for intermediate goods and raw materials since late 2003— inflationary pressures have not so far intensified. In part, this reflects the fact that liquidity increases have been absorbed by rising money demand, reflecting rapid remonetization, strong income growth, and improved confidence. Nonetheless, the combination of very rapid growth and booming commodity prices will increasingly lead to overheating and inflationary pressures. To avoid exacerbating such pressures, it will be important to resist pressures to relax fiscal policies. Monetary policy will also need to tighten, particularly where inflation remains relatively high, accompanied in those countries that continue to experience large external surpluses by greater upward exchange rate flexibility.

Africa

Real GDP growth in sub-Saharan Africa is projected to rise to 4.75 percent in 2004 and 5.75 percent in 2005, and—while some individual countries continue to face serious problems, with the humanitarian catastrophe in western Sudan of particular concern—the outlook is better than it has been for some time. Underlying the pickup in growth are improving macroeconomic stability; the global expansion, notably through higher demand for commodities at higher prices; easing external debt burdens through the Heavily Indebted Poor Country (HIPC) Initiative; and somewhat better access to industrial country markets.

Table 4. Growth of GDP, inflation (Transition economy countries)

	Growth of GDP%					Inflation (%)				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Central and eastern Europe										
Albania	7.3	7.6	4.7	6.0	6.2	-	3.1	5.2	2.4	3.4
Bosnia and Herzegovina	5.5	4.4	5.5	2.7	5.0	5.0	3.2	0.3	0.2	0.9
Bulgaria	5.4	4.1	4.9	4.3	5.2	10.4	7.5	5.8	2.3	6.3
Croatia	2.9	4.4	5.2	4.3	3.7	6.2	4.9	2.3	1.5	2.5
Czech Republic	3.3	2.6	1.5	3.1	3.3	3.9	4.8	1.8	0.1	3.2
Estonia	7.8	6.4	7.2	5.1	5.8	4.0	5.8	3.6	1.3	3.0
Hungary	5.2	3.8	3.5	2.9	3.5	9.8	9.2	5.3	4.7	6.9
Latvia	6.9	8.0	6.4	7.5	6.5	2.6	2.5	1.9	2.9	5.8
Lithuania	3.9	6.4	6.8	9.0	7.0	1.0	1.3	0.3	-1.2	0.6
Macedonia, FYR	4.5	-4.5	0.9	3.1	4.0	6.2	5.3	2.4	1.2	2.0
Poland	4.0	1.0	1.4	3.8	5.8	10.1	5.5	1.9	0.8	3.7
Romania	2.1	5.7	5.0	4.9	5.0	45.7	34.5	22.5	15.3	11.5
Slovak Republic	2.0	3.8	4.4	4.2	4.8	12.0	7.3	3.3	8.5	7.7
Slovenia	3.9	2.7	3.4	2.3	3.9	8.9	8.4	7.5	5.6	3.7
Serbia and Montenegro	5.0	5.5	4.0	3.0	4.4	69.9	91.1	21.2	11.3	7.9
CIS										
Armenia	6.0	9.6	12.9	13.9	7.0	-0.8	3.1	1.1	4.8	3.0
Azerbaijan	11.1	9.9	10.6	11.2	9.1	1.8	1.5	2.8	2.2	5.3
Belarus	5.8	4.7	5.0	6.8	6.4	168.6	61.1	42.6	28.4	19.5
Georgia	1.9	4.7	5.5	11.1	8.5	4.0	4.7	5.6	4.8	5.8
Kazakhstan	9.8	13.5	9.8	9.2	9.0	13.4	8.3	5.9	6.4	6.8
Kyrgyz republic	5.4	5.3	-	6.7	5.5	18.7	6.9	2.1	3.1	4.5
Moldova	2.1	6.1	7.8	6.3	5.0	31.3	9.8	5.3	11.7	10.7
Russia	10.0	5.1	4.7	7.3	7.3	20.8	21.5	15.8	13.7	10.3
Tajikistan	8.3	10.2	9.1	10.2	10.0	32.9	38.6	12.2	16.4	7.2
Turkmenistan	18.6	20.4	19.8	16.9	7.5	8.0	11.6	8.8	5.6	5.0
Ukraine	5.9	9.2	5.3	9.4	12.5	28.2	12.0	0.8	5.2	8.3
Uzbekistan	3.2	4.1	3.1	1.5	2.5	49.5	47.5	44.3	14.8	11.8
Mongolia	1.1	1.0	4.0	5.5	10.6	8.1	8.0	1.6	4.7	11.0

Source: World economic outlook

Although higher oil prices are hurting oil importers, the general rise in global commodity prices is projected to have a positive net impact on the trade balances of many countries this year. The countries with the largest net gains are mostly oil exporters, followed by countries with substantial gains from higher prices of metal ores. For the majority of countries, gains from higher-priced nonfuel commodity exports are roughly equivalent to losses from higher-priced oil imports, though a few countries face substantial net losses, reflecting mainly higher oil import bills.

While the increases in commodity prices are welcome, the windfall gains will need to be managed carefully to avoid boom-bust cycles that can result from price volatility. Given the volatility of commodity prices, fiscal policy should aim to accumulate precautionary savings when prices and thus fiscal revenues are high. Furthermore it is essential not only to entrench macroeconomic stability but also to further reduce government involvement in the economy, promote private investment, develop infrastructure, and deepen institutional reforms. To mitigate the impact of the HIV/AIDS pandemic, an effective strategy will be critical, including strengthening health care systems, expanding prevention programs, and increasing the provision of life-prolonging antiretroviral therapy.

Middle East

In the Middle East, higher oil production and prices boosted growth in 2003 but, with oil production now close to capacity, the pace of economic expansion has begun to taper off. GDP growth in the region is now projected to decline by 1 percentage point to about 5 percent in 2004–05, reflecting a combination of lower growth in the oil sector and, in both oil exporters and the Mashreq[3], a substantial pickup in non-oil growth. While most countries in the region have benefited from higher oil prices, they remain exposed to medium-term oil price volatility, especially if windfall gains from above-average oil revenues are not used to accumulate adequate buffer stock savings. Another key concern is the stillfragile security situation.

Looking forward, fiscal consolidation remains a priority in most countries, although the urgency and extent of problems differ. In some non-oil-exporting countries—most seriously Lebanon but also other parts of the Mashreq – public debt burdens are high, and need to be reduced for medium-term sustainability. In contrast, most oil-exporting countries have generally low public debt burdens and are currently running budget surpluses, as substantial shares of the large, oil-related revenue windfalls have been saved. However, budget deficits could reemerge, as oil prices are expected to decline, highlighting the vulnerability of fiscal positions to oil market developments. Furthermore creating the environment for a sustained increase in medium-term growth is the second policy priority, given generally high unemployment rates and a rapidly growing labor force.

[3] Mashreq includes Egypt, Israel, Jordan, Lebanon, Syria, West Bank and Gaza.

1.2 World market prices and interest rates

Headline inflation has inevitably increased with higher oil prices, but in a number of countries- including the United States- core inflation has also picked, in part reflecting temporary or one-off factors, as well as higher prices of crude and intermediate materials. Inflationary risks vary across countries and regions, but in most appear moderate, given substantial excess capacity in many countries; generally moderate wage settlements relative to productivity growth; strong corporate profitability. Even so, central banks will need to be vigilant to ensure that the second round effect of higher headline inflation are well contained, a task that will be easier in those countries where central bank credibility is well established.

Financial market developments have been dominated by changing expectations about the pace and timing of monetary tightening in the United States. The growing strength of the recovery, combined with the changing language in Federal Open Market Committee statements, triggered a significant rise in long run interest rate through mid-June. The market adjustment to these developments has been orderly, and has not posed a threat to financial stability of the health of financial institutions. The impact was in emerging markets, where bond spreads – which had been close to historical lows – widened significantly, and new issuance slowed. Since June, these trends have partially reversed, as weaker U.S. data have prompted a downward revision in the expected pace of U.S. monetary tightening. Long run interest rates have fallen back, equity markets have weakened, and risk appetite has strengthened, accompanied by a corresponding improvement in emerging market financing conditions. Despite the apparent uncertainty as to future U.S. monetary developments – and other factors, notably oil prices and geopolitical risks – expected volatility in major stock and bond markets is at historically low levels.

In foreign exchange markets, rising expectations of higher U.S. interest rates and buoyant growth contributed to a moderate appreciation in the U.S. dollar. Since April, despite some volatility, the major currencies have moved rather little in trade weighted terms, with a moderate depreciation of the USD and JPY accompanied by small appreciation of the EUR and GBP. Outside central Europe, most emerging market currencies have depreciated, notably in Asia and Latin America, partly reflecting the deterioration in external financing conditions.

1.3 World commodity market

Global economic growth, in turn, has significantly affected the increase in commodity prices. In 2004, increase of oil prices has had an impact on global growth and according to some researchers, such oil price increase has reduced the global growth by at least 0.5 points.

Building on the robust increase in commodity prices during the last quarter of 2003, the index of overall primary commodity prices increased by about 27 percent in both USD terms during the first eight months of 2004. The increase can be attributed to sizable movements in energy, raw materials, and metals prices, reflecting a surge in global demand.

Figure 4. World market price of gold

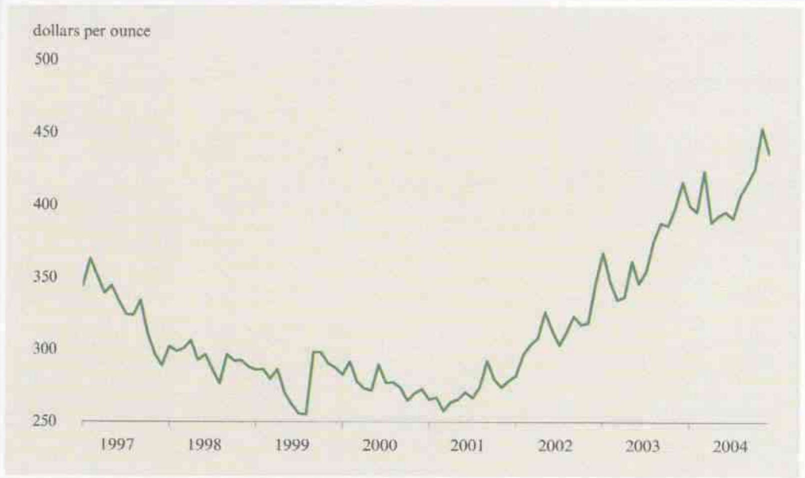


Figure 5. World market price of copper

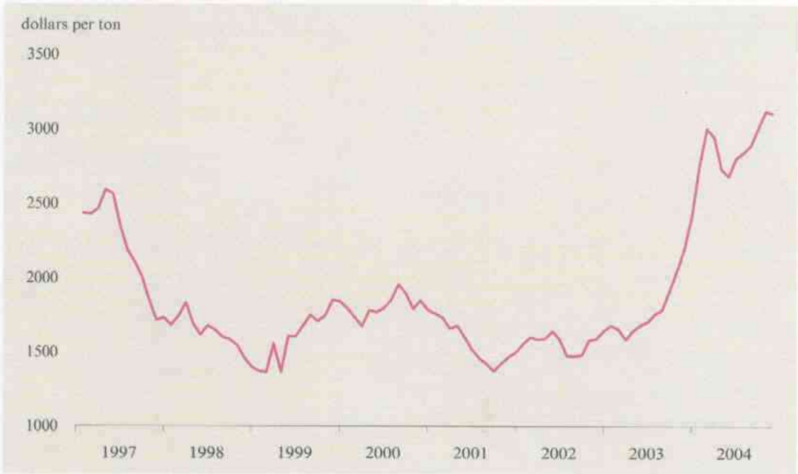


Figure 6. World market price of crude oil

As sharp increase in oil price has led to fear of bringing back an increase in inflation level, most Central banks took measures to increase prime rates. In Mongolia, significant increases in oil price were realized from the end of June to the beginning of July; therefore, it resulted an upward impact on consumer prices and depreciation of MNT.

Gold price growth was directly affected by the exchange rate of USD; moreover, fluctuations at capital markets of developed countries, uncertainties in Iraq, and US presidential election all have affected an increase in the demand for gold, the major investment asset.

Crude Oil

The main developments in oil markets during 2004 have been the rise in crude oil prices to record nominal highs, and higher price volatility. Average oil prices rose substantially during the first eight months of 2004, surpassing the record nominal highs set during the Iraqi invasion of Kuwait in 1990. While OPEC's decision to increase official quotas by 2 million barrels a day (mbd) in July and further 0.5 mbd in August helped to lower average prices markedly to about USD 33 by mid-June, subsequent tensions in oil-exporting nations – particularly Iraq, Nigeria, Russia, and Venezuela - pushed average prices to a new record high of USD 44.71 on August 19. Average prices fell to USD 38.13 by early September as these tensions eased, but have since turned up once more, reflecting renewed supply concerns in Russia and an unexpected decline in U.S. inventories. Looking ahead, futures markets suggest that oil prices will remain high for the remainder of 2004 and 2005. As of mid-September, future oil prices as far forward as 2010 were uniformly above USD 30. The surge in spot prices has been largely unanticipated – futures markets at the end of September 2003 indicated a spot price of about USD 24.9 for September 2004 delivery – appears to have reflected a number of factors.

- As the global economic recovery has taken hold over the past year, the fact that both the level and growth in the global demand for oil have consistently outpaced expectations.
- On the supply side, OPEC's February announcement of lower output targets together with disappointing growth in non-OPEC production.
- Raising concerns that the global production system will not be able to cope with and unanticipated, short-term supply shock.
- Commercial inventories of crude oil in the OECD remain low by historical standards, especially in the United States.
- Geopolitical concerns in the Middle East have raised questions about the stability of supply, both in the short and long term.
- There is continued uncertainty regarding the status of the Russian oil firm OAS Yukos and its ability to continue to produce and sell crude oil.

Non-energy Commodity Prices

Following a marked increase in non-energy commodity prices during the second half of 2003, non-energy commodity prices experienced further but relatively modest gains during the first eight months of 2004. The slower increases coincided with attempts by China – a large consumer of non-energy commodities – to cool the pace of its economic expansion, and moves by the Federal Reserve to raise U.S. interest rates.

The IMF index of non-energy commodity prices increased by 8 percent since the start of 2004. Growth in the index has recently paused, owing to weakness in food prices. By the end of August the overall index of food prices had increased by 3 percent since the beginning of 2004. Rice prices, after a lackluster performance in 2003, increased by 28 percent as a disappointing harvest in China resulted in above-average imports. After increasing to their highest level in over a decade, soybean prices have fallen by 21 percent as Chinese imports declined significantly and farmers in Brazil and Argentina delivered a newly harvested crop.

Agricultural raw material prices increased by 9 percent, buoyed by growth in softwood lumber prices. As the trade dispute between Canada and the United States continues, softwood lumber prices have increased by over 40 percent on robust demand deriving from the U.S. housing market. Cotton prices declined considerably, falling by 27 percent on expectations of record harvests in the United States and China. After surging to multiyear highs and recording growth of nearly 20 percent in the second half of 2003, metals prices increased by 15 percent through the end of August and their volatility remained high.

Nickel prices led the decline, plunging by 21 percent through May, owing to substitution, de-stocking, and higher production. During 2004, copper and gold prices were mostly higher than USD 2500 per tonn and USD 400 per ounce respectively. As a result of increasing global demand and declining inventory, copper price rose by 29 percent. Main buyers at the world copper markets are China, South East Asian and European countries; especially, the consumption of China has been increasing at 9 percent rate from year to year.

Furthermore, higher sales of automobile, computer, construction, and communications sectors played main role in the copper price increase. During this time of significant global economic recovery and declining inventory, commodity prices tend to increase even more during the beginning of the coming year.

2 BRIEF REVIEW OF THE DOMESTIC ECONOMY

2.1. General overview

During last years, the Mongolian Government has been implementing a stable policy aimed at creation of an environment that enables the socio-economic development of the country. As a result, the preliminary estimates of real economic growth showed 10.6 percent. Thus, the basis for the further successful development of Mongolia was established. The real economic growth of 10.6 percent was the highest since Mongolia embarked on the transition to a market economy and started building the democratic society. The private sector played an essential role in reaching such an achievement that proved the robustness of market mechanism. In addition, this was immediate outcome of increased foreign and domestic investment into mining, manufacture, services and banking and financial sector last years.

The Parliamentary election on June 2004 was followed by formation of the Coalition Government. The Parliament approved Action Programme of the Coalition Government for 2004-2008. Although the formation of a new Government suffered from long debates and was continuous process, the Coalition Government succeeded to preserve its main principles of activity. Positive trends in Mongolia's socio-economic development revealed during last years were direct consequences of rational macro economic policy implemented on the continuous basis. In addition, fair prospects for the future are expected.

The development of mining and quarrying, and agricultural sector was a main factor in the achieving such a result as the real economic growth of 10.6 percent in the reporting year. According to the annual livestock census preliminary results, at the end of 2004 livestock was counted to 28 million heads. Boroo Gold hard rock mining started its exploitation that led to increase of gold extraction in total. All these factors contributed into the GDP growth. In particular, gold mining increased by 74.6 percent compared to the previous year.

In comparison with 2003, total output of mining and quarrying grew by 30.8 percent, of which mining of metal ores increased by 41.9 percent. This output increase is owed to exploitation of new production capacity in this sector. On 1st March 2004, the Boroo Gold Company opened its hard rock gold mining plant at Boroo site. According to estimations, the plant's

Table 5 Annual real GDP growth (percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP	2.4	4.0	3.5	3.2	1.1	1.0	4.0	5.6	10.6
Agriculture, hunting and foresty	4.4	4.3	6.4	4.2	-14.9	-18.5	-10.7	5.8	18.9
Mining and quarrying	6.1	5.6	4.9	3.2	6.6	9.6	-6.9	-1.3	31.9
Manufacturing	-13.8	-15.0	3.2	-2.8	-3.3	31.8	22.1	2.1	1.5
Electricity, thermal energy	0.7	0.4	3.2	4.6	0.4	3.5	3.9	1.1	6.3
Construction	2.6	-2.7	-1.1	1.6	-14.6	10.8	18.5	47.6	0.3
Wholesale and retail trade	0.3	17.1	-3.1	1.3	26.1	9.8	13.3	7.1	2.8
Transport, storage and communication	11.2	5.8	7.4	6.1	25.2	14.9	16.2	13.9	9
Financial intermediation	42.2	-26.7	-33.0	39.9	7.0	22.4	7.3	33.6	20.2
Real estate, renting and business activities	4.2	-2.4	8.4	-4.7	12.5	7.1	25.2	30.6	3.1
Education	4.0	4.1	6.8	4.6	3.2	1.3	4.9	-5.5	2.5
Health and social security	4.4	3.0	1.4	3.1	-0.1	4.6	2.9	-2.4	-0.6
Community, social and personal services	0.8	6.2	5.3	0.5	57.1	10.4	49.2	-0.1	1.6
Indirect services of financial institutions	15.6	-7.5	-16.6	7.0	30.5	27.1	1.6	27.4	11.3

annual capacity is producing 5-6 tons of gold. In 2004, Boroo Gold mining plant produced 7.7 tons of gold.

The removal of preferential quotas in the Multi-Fiber Agreement on 1st January 2005 could be considered as the main cause of 18.6 percent decline in Mongolia's garments industry. Removal of quotas broke off income proceeds from export, and led to wide closure of textile and garments manufacturers. This industry faced the danger of unemployment growth and poverty expansion.

Despite the economic recovery in Mongolia, the key problems in the social sphere such as unemployment and poverty were still on the high level and could not show substantial decrease. The Living Standards Measurement Survey of 1995 conducted by the NSO showed that 36.3 percent of the population was in poverty, while the second survey of 1998 estimated the poverty as 35.6 percent of total population. According to Household Income and Expenditure Survey with Living Standards Measurement Survey of 2002-2003, the poverty remained deep as 36.1 percent of the population lived in the poverty. The last survey estimates showed that 900 thousands people out of total population (2.5 million) are poor. In urban area, the poverty is significantly lower than in rural. The specific feature of Mongolia is that poverty indicators are related to livestock held by households. Therefore, natural disasters occurred past years were the main reason for poverty growth in rural area.

Mongolia presented seasonality patterns along the year. The incidence of poverty in the second and fourth quarters was 5 points higher than in other quarters. This was likely associated with seasonal livestock activities and weather conditions.

A third of the Mongolian population had either tertiary or vocational education. The poor displayed lower education level. More than half of the poor had eight-year education in the secondary school, while one third of non-poor had the same education. The expenses of non-poor studied in public primary and secondary schools were 60 percent more than expenses of the poor. The non-poor reported more health complains, and spent on their health care and treatment three times more than the poor spent.

According to the Survey of 2002-2003, the labor force participation rate was estimated at 65 percent. In urban area it accounted to three fifth, in rural area three fourth. The employment sectors were different in urban and rural area. When in rural regions seven out of ten workers were engaged in breading livestock, in the capital city and aimag centers three fourth of jobs were provided in the services sector. People engaged in agricultural sector had more propensities to become poor. The unemployment rate is about the similar in urban and rural area, but it was twice higher among the poor in comparison with the non-poor.

The extent of safety networks was impressive; four out of five households either give or receive some transfers, including pensions, benefits, assistance. The same level of poverty was observed among the household received any kind of transfers and households that have not received any transfers. However, bigger amount of transfers connected with the less poverty.

The results of the survey conducted by the National Statistical Office of Mongolia with the support of the UNDP and the World Bank were to provide policy makers with necessary information, monitor poverty, and clarify its main causes.

Poverty reduction has strong tights with availability of working places and employment. The banking and financial sector played important role in reducing the poverty. Providing loans to entities and individuals and enhancing the financing are measures to support their activity, enrich sources of their income, cut unemployment, and create new working places. Issues on further development of micro financing and improvement of banking services in rural area remained on the agenda. The development of the banking and financial sector, provision of high-quality banking and financial services, expanding the area for offering such services all contribute into the poverty reduction.

Since Mongolia is heavily dependent on imports of energy sources, the oil price rise in the world market had negative impact on the social and economic life of Mongolia. In 2004, inflation reached 11 percent, its the highest point since 2001. Consumer products price increased owed to supply shock factors. In the reporting year, oil products imports made up 20.8 percent of total imports, of which 89.4 percent was imported from Russia. Supply of oil products depends on one company's activity, namely Yum Trade Company that resulted in adopting the monopoly rights and pushing up prices. On the other hand, inflation flight was linked with oil price (base price) rise in the world market, and raising taxes on oil products exports and taxes on mineral resources in Russia. Mongolia is regarded to fuel intensive countries with its huge consumption of energy for the heating purposes in cold winter time and long distance transportation. In the reporting year, the price peakof Petroleum A-76 accounted to 40.9 percent, of Petroleum A-93 to 46.3 percent, and the price of diesel fuel increased by 63.8 percent from the previous year. This rise in prices was followed by increase of consumer products price. Therefore, the annual inflation rose above the predictions and expressed by two-digit figure. Supply driven economic shock observed through rise in price of petroleum products since the second half of 2004 necessitated prompt response and principal modifications in the monetary policy.

The theoretical and practical issues of the Central banks' monetary policy appropriate when the oil price rose underpinned by supply side concerns were at the centre of interest for researchers. Particularly, during the 1973-1974 Arab oil embargo, oil price in industrial countries sharply rose, underpinned by supply-side concerns that increased expenses and narrowed framework for profitable activity. In such cases easing of monetary policy by Central banks might lead to significant rise in inflation. Supply shocks are classified as one-off in nature or continued with spillover effects. When the effects of supply shocks are strong, temporary rise in prices feed high inflation expectations through to wages, and thereby become more entrenched, the Central banks should respond with the tightening of the monetary policy. In such a way, the expectations for the higher inflation could be pushed down in some countries without experience in maintaining low inflation.

Supply driven rise in consumer products price necessitated adoption of defined restructuring measures. The Ministry of Industry and Trade studied additional channels and ways for imports of petroleum products, took measures aimed at weakening negative impact of price increase. In order to prevent from out of control rise in prices, the Bank of Mongolia's implemented absorption of money supplied into the economy or tightening of monetary policy. In the reporting year, the growth rate of money supply fell by 29.2 percentage points from the previous year and by 19.4 points from the last three years average.

In 2004, the price of Mongolia's main export commodities such as gold and copper went up in the world market that led to increase of total exports. In comparison with the previous year, total exports rose by 38.5 percent, of which copper concentrate exports by 75.8 percent and gold exports by 73.7 percent, respectively. Oil price rise influenced total imports worth. Total imports grew by 26.3 percent from the previous year, of which mineral products imports by 38.9 percent, and petroleum products imports by 42.1 percent, respectively. Foreign trade deficit declined by 14.5 percent and accounted to USD 158.3 million.

The nominal exchange rate of Togrog against USDollar depreciated by 3.5 percent from the end of the previous year. During 2003, the depreciation of Togrog was estimated to 4-22 Togrog, but during 2004 the exchange rate movements had comparatively higher deviation of 1-27 Togrog. Because of the political instability followed Parliamentary election in 2004, individuals and businessmen converted their Togrog denominated assets into USDollar denominated assets thereby strengthening unhealthy demand that caused an additional pressure on the Togrog exchange rate.

The Government paid to Ivanhoe Mines Company the Government bonds' principal payment USD 50 million worth and interest payment 1.3 million worth. The final settlement

Figure 7. Real GDP growth rate

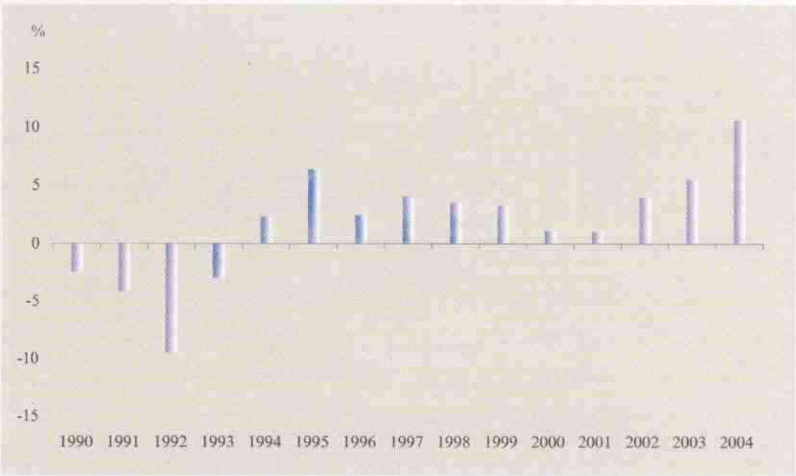


Figure 8. GDP growth by sector

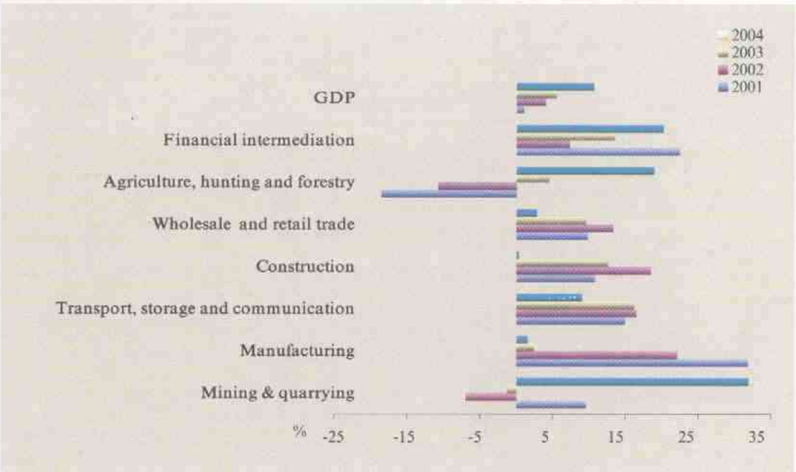
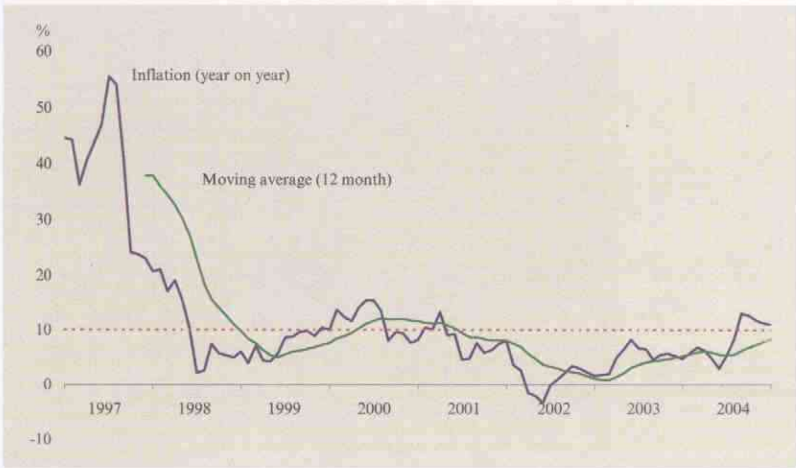


Figure 9. Inflation rate



conducted on timely basis facilitated trading of Government bonds in domestic and foreign stock exchange, enhanced the confidence of foreign investors into the Mongolian Government.

Last year budget revenues and grant totaled Togrog 697.4 billion, total expenditures and net lending Togrog 713.8 billion, and budget deficit amounted for Togrog 16.5 billion. The budget deficit made up 0.9 percent of GDP. In comparison with 2003, the percentage share of the budget deficit in GDP decreased by 5 points. The budget deficit decrease provided more opportunities for the private sector, and turned up into the precondition for the economic growth. The Mongolia carried out its settlement with the rest of the world based on to remittances of Mongolian workers employed in foreign countries and foreign investment. In such circumstances, the budget deficit appears the worst structural deficiency in our economy. During the transition from centrally planned economy the budget expenditures side remained unchanged in structural terms, and continued to provoke reliance on others, the dependency sense. The core component of the budget revenues side is tax revenues. Tax revenues are collections from the private sector, and in such a view, uncollected taxes could serve as sources of an effective investment and feed the budget in greater extent.

Industry

During the reporting period, total industrial production was MNT 312.6 billion (at 1995 base price) which is MNT 36.0 billion, or 13.0 percent, up on the previous year's output. The mining and natural resource exploration went up by 30.8 percent. This was due to a 41.9 percent increase in the mining of metal ores, and 21.9 percent increase in the mining of coal. The production of electricity, thermal energy, and water distribution rose by 6.3 percent. However, the production sub-sector decreased by 7.0 percent.

New production such as the food production, beverage, and manufactures of textiles, basic metals, chemicals, and furniture all increased. However, clothing manufacture, fur dressing and dyeing, tanning and dressing of leather, manufacture of footwear, timber and wood manufacture, publishing, printing, and reproduction of recorded media all experienced falls. Particularly, a production of the clothing manufacture and fur dressing and dyeing went down by 2.6 billion togrogs or 18.6 percent compared to the previous year.

Held against 2003, the share of trade attributable to the mining and natural resources sector went up by 12.0 percentage points while the production sub-sector share fell by 7.3 points and utilities by 4.7.

Of 256 commodities included in the statistical compilation list, the production of 102 products including electricity, thermal energy, and water distribution, crude oil, copper concentrate, gold, copper, metal moulds, metal foundries, scoured wool, camel woolen blanket, knitted goods, book, spirit, alcohol, wine, beer, soft drinks, bread, bakery products, biscuit increased.

Figure 10. Consumer Price Index

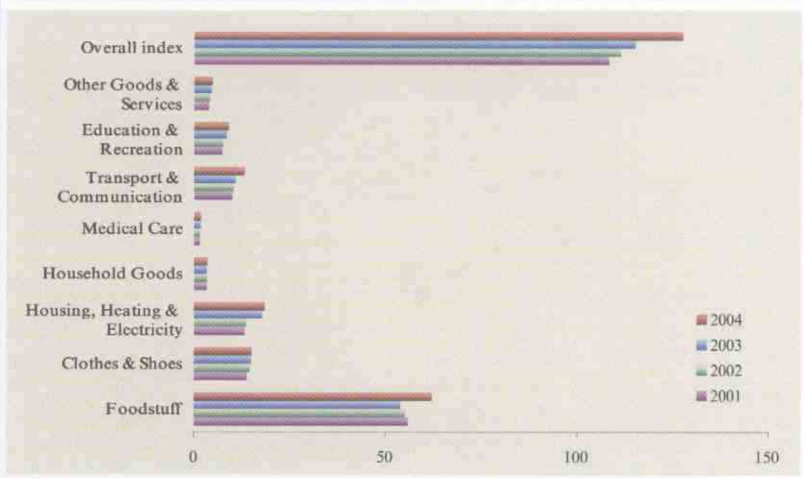


Figure 11. Gross industrial output growth (at 1995 prices)

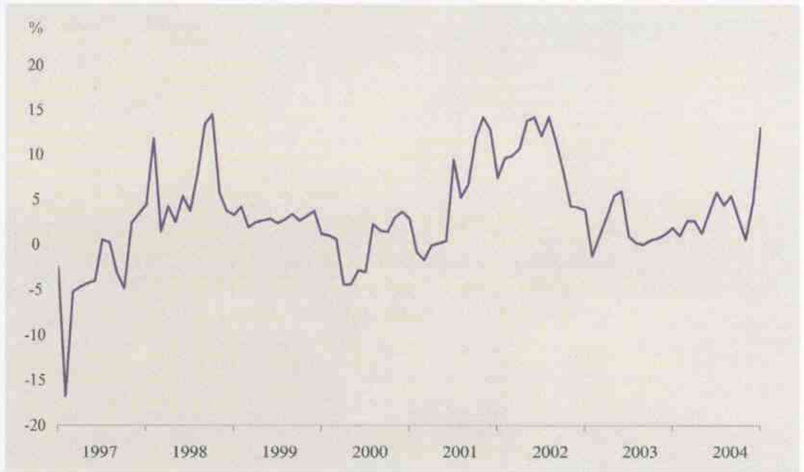
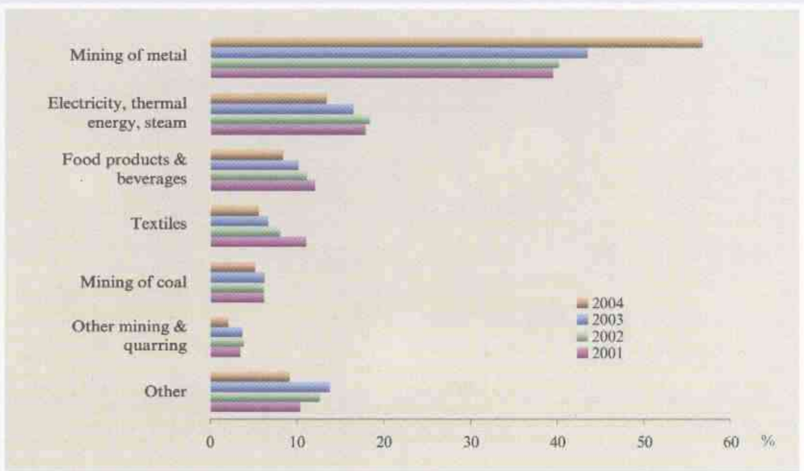


Figure 12. Gross industrial output (by structure)



Box 1. Mongolian textile and clothing industry: Where is it going?

According to the statement by Mongolian Ministry of Industry and Trade (MIT), there are currently 36 fully foreign owned, 44 joint and 14 domestic factories are operating in textile and clothing sector. 35 percent of total foreign companies are owned by Chinese, 23.7 percent by Korean and remaining are owned by Hong Kong, the USA, Canada, and the UK investors. This sector, that employs about 20 thousand people, have exported products with value of USD 97.0 million in 2003 or around 15 percent of total exports.

Mongolian textile and clothing sector has developed significantly since 1999 due to a favorable environment created with quota system established by the MFA and Mongolian inclusion to the US generalized system of preference. For the countries that were producing and exports up to its quota limit and searching for an additional market, Mongolia with right to export textile and clothing products without any quota must have been the perfect spot for production. Factories operating in Mongolia export their products to Canada, the EU, and mostly to the USA; and formerly they were used to get orders directly from importing countries, but since recently they are taking orders via Chinese producers.

In order to clarify affects of the new quota free trade environment on our textile and clothing sector, we have interviewed managerial staffs of 10 medium and relatively big companies operating in that sector. All those companies export various types of textile and clothing products to the USA and as they have orders through 2005, their operation will be normal up until then. Nevertheless, if their order declines after this year and they start losing their markets, it is probable that their companies would have to shut the factories. Interviewed companies all are medium and relatively big sized factories with over 300 employees. Since they have gained customers and certain market share in the USA, they might not instantly lose all their businesses. After all, as some experts view, quota free export and cheap production cost of China would not mean all buyers are going to have China to execute their orders of textile and clothing products. As it is said that «Do not put all your eggs in the same basket», risk diversification is certain; furthermore, in addition to cheap production cost there are various factors such as promptness, quality of products, specialization of certain products play vital role in buyers' decision of choosing the suppliers. Therefore, if we could define our advantage clearly, we could «rescue» our textile and clothing sector.

With whom and how are we going to compete?

Since 2005, we are in pure and fair competition with world's largest textile and clothing product suppliers such as China, Thailand, India, Bangladesh, Pakistan, Sri-Lanka, Malaysia and Latin American countries and with domestic producers of major importing countries. Undoubtedly, everyone is dreading that they might lose their market to China and trying to take their own safeguard measures; however, there are certain factors that will define whether that producer will survive the competition or not.

COST. Salary, working condition, utility price, automatization, workers' skills and experience, exchange rate, and custom tax all have an influence on determining price of a product. Wage level in Mongolia is relatively lower and not very much different from those countries like China that «praises» their low labor cost. To compete with other suppliers by our low price, we have to have similar utility cost, stable exchange rates, and highly skilled and experienced workers. In Mongolia, our producers face very high rent price because of working condition that requires regular heating except in summer 3 months, thick wall to keep it warm, and constant lighting. But, please remember whom we are competing with. Our competitors have got nice, tropical climate and if they could build «factory» with cardboard and work day and night, they still would not need any heating. Also, productivity of our workers is lower. It is partially because of availability of new, advanced technique and technology, but, if I be honest, our people tend to be too careless and negligent. It is true that we need support from the government and other countries, but producers and workers of textile and clothing sector should take all measures they can. Maybe, first of all, they need to improve their working disciplines and increase personal productivity.

DEADLINE. Because fashion seasons are increasing and current technology allowed retailers to automatically determine inventory, retailers are now ordering small quantity of products to be delivered within short period of time instead of ordering a bulk as they used to do formerly. It means tight deadline and various types of small quantity of products for the suppliers. Although suppliers in Africa and Asia have lower labor cost, it is hard for them to compete with Latin American and East European suppliers who have geographical advantage over them. In our case, transportation is one of the biggest challenges that our producers face. Transportation cost is higher and time is longer to deliver products from Mongolia.

QUALITY. Average retailers are ready to accept only satisfactory level of quality while brands require flawless, top quality to comply with their price tags. In order to produce high quality products, skilled workers, good management, and up-to-date technology are necessary. Learning to do something specific is not adequate anymore because, as I said earlier, fashion seasons are increasing and technology is improving constantly. Thus, we could compete only when we have literate and experienced workers who could adjust with seasonal fashion changes and technology changes.

In addition to having above mentioned advantages, we could participate in currently appearing fair competition in the world textile and clothing market with certain support from our government. As revealed by the interviews with producers, although they have orders to complete until 2006, they say, future of Mongolian textile and clothing sector is unclear and their market share will decline and some of them might even come to the edge of bankruptcy. However, they believe that if government can take rational and optimal measures, such situation could be prevented. In their opinion, reducing tax burden, promoting foreign investment, discounting social security fee, and solving problems of high rent and custom tax will do the magic.

What is the government doing and what should be done?

In order to maintain normal working environment for producers of textile and clothing sector during this time of change, competition challenges, to prevent from future difficulties, and to improve domestic producers' capacity to compete, the government has approved the Regulation 207 in September 2003 and the Regulation 237 in December 2004.

The Regulation 237 has defined respective measures in five main directions:

- Take measure to reduce social security payment and tax burden for textile and clothing producers and to increase domestic order and consumption of such type of products, train workers for new skills, and mediate for working abroad.

- Expand foreign market, be included in the generalized system of preference of the EU and Russia, improve skills of workers, take measures to implement programme and project to renew and update technique and technology.

- Set choice preference for domestically produced goods when making purchase financed by state or municipal budget.

- Investigate an opportunity to support producers within the policy of establishing industry and technology park.

- Increase products' competitiveness, improve technology and workers' skills, train workers for dual vocational skills, and take measures toward possible cooperation with foreign countries.

Within the framework of the implementation of the Regulation 237, the government approved the Regulation 32 in March 2005. According to the latter regulation, employers in the textile and clothing sector will be reimbursed up to 50 percent of social security payment based on their performance evaluations beginning from April 1, 2005 until April 1, 2006.

Implementing measures stated in the Regulation 237 without delay will have great impact on to continue normal operation of the sector, overcome current day challenges, and to successfully compete at the world market.

We have been hearing successful talks and negotiations with the EU about being included in its generalized system of preference through media channels. One of the main criteria for inclusion to the GSP is rules of origin requirement. In our case, our producers import almost 100 percent of required input or produce goods with materials provided by the buyers. It might be appropriate to investigate possibilities to produce input products or to create favorable environment to attract foreign investment in that area. Since we import input materials, we hope that the government will soon take measures to reduce or eliminate custom and other types of taxes on such kind of goods.

Majority of textile and clothing product factories have export-oriented production and it can be said that domestic market is almost fully closed to their products. During last 5-6 years, such industry has been developing rapidly and we have gathered enough experiences. It might even be possible to re-start production by using already closed factories, whose owners are back to their respective countries, and their machineries. In that case, when we have experience, building, and machineries, we could supply products, that could most certainly compete with cheap and low quality Erlian products (as we call them), at the domestic market for the consumption of urban and rural customers and satisfy their needs in certain length.

If we want to make improvements in quality and style, we cannot afford to be left behind in any technology advances. Only in that way, we could create our own market at the both domestic and international market. In order to do so, we need investment and money to finance such investments. Instead of fully relying on foreign investors in this matter, we shall search for a possibility to finance them by domestic sources; to be specific, look into optimal ways of lending to the sector by banks and other financial institutions and to introduce possibility to issue bonds of textile and clothing factories at the Stock Exchange.

During the reporting year, 2.7 billion kilowatts of electricity, 6.8 million tons of coal and 7.0 million gkal of thermal energy were produced. These figures represent a 21.9 percent increase in coal exploration, 6.9 percent in electricity output, and 5.2 percent in thermal energy production.

In 2004, MNT 1175.9 billion (at current prices) of industrial products were sold on the domestic and foreign markets.

Agriculture

Preliminary results of the annual livestock census suggest that 28.0 million livestock were counted, 256,300 of which were camels, 2.0 million horses, 1.8 million cattle, 11.7 million sheep and 12.2 million goats. The total number of livestock increased 10.0 percent, or 2.5 million, on the previous year. If we consider livestock variations by type, it is shown that horses increased by 30,700, cattle by 42,600, sheep by 903,500 and goats by 1.6 million, while the number of camels fell by 4,000.

The preliminary results suggest that the aggregate number of livestock increased by 2.0-22.1 percent or 2.4-273.2 thousand in the 19 aimags, but that the number of livestock in Ulaanbaatar, Sukhbaatar, and Selenge decreased.

The proportion of female livestock in 2004 was found to be 87.5 percent, or 9.5 million, an increase of 7.4 percentage points on 2003. Within this figure, horses showed the highest change with a rise of 11.7 points, followed by cattle (8.2), goats (7.3), sheep (6.6), and camels (3.0). Of all offspring produced 97.2 percent, or 9.3 million, survived. This figure is 1.4 million higher than in 2003 and the percentage survival rate is 3.8 points higher than in 2003.

In total 291,700 head of livestock were lost; 1.0 million less than in 2003.

During the reporting year 138,500 tons of wheat, 80,200 tons of potatoes, and 49,200 tons of other vegetables were harvested. Compared with figures from the previous year, wheat production declined by 16.1 percent or 26,500 tons, and potato production by 17.5 percent or 10,400 tons, but production of other vegetables rose by 1.9 percent or 1,500 tons.

Of the total crop, 51.4 percent was harvested in Selenge Aimag, 14.4 percent in Bulgan Aimag and 12.6 percent in Tuv Aimag. The potato harvest broke down as 25.0, 18.2, 7.2, and 6.9 percent in Tuv, Selenge, Khovd and Orkhon aimags respectively. 25.8 percent of the total vegetable crop was harvested in Selenge Aimag, 16.6 percent in Darkhan-Uul Aimag, 14.5 percent in Tuv Aimag, and 10.1 percent in Khovd Aimag.

On average, 800kg of wheat and 8,830kg of potatoes were produced per hectare, compared with 790kg and 9340kg, respectively, in the previous year.

818,600 tons of grass and 27,400 tons of supplementary livestock feed were prepared in 2004. This is a fall of 2.6 percent or 22,100 tons, and 10.1 percent or 3,100 tons, respectively on 2003.

Construction

In the reporting year, construction companies undertook construction and capital repair work valued at MNT 159.2 billion, 6.2 percent more than in the previous year. Of all work done, 75.0 percent was completed by domestic companies and 25.0 percent by foreign companies. In comparison with the previous year, domestic companies' construction and capital repair work rose by MNT 14.5 billion while the value of work undertaken by foreign companies fell by MNT 5.3 billion. Also large-scale projects including the construction of apartment complexes, factories, trade and service centers, dam, ditch, cable, network, road, bridge, and building of hospitals and schools were completed at a total cost of MNT 85.3 billion. This was 2 times higher than in 2003.

During the reporting year, corporations and companies such as the Great Construction Project, the Construction, the MCS Electronics, and the Puma group drew finances from the sale of bonds.

Since 2003 the Asian Development Bank has implemented a project to assist in providing apartments for the public, lending to low income households to finance their housing and improving infrastructure in the ger districts (gers are traditional felt tents). Mortgage loans are being distributed through Anod, Golomt, Zoos, Mongol Post and Savings banks as well as through local government. As end of the reporting year, 14.6 billion togrogs worth of loans were issued to 1347 lenders.

Transportation

In 2004, 21.6 million tons of goods and 194.2 million (double counted) passengers were carried by all means of transportation. This represents an increase of 22.5 percent, or 4.0 million tons, for the former and 15.7 percent, or 26.3 million passengers, for the latter.

Rail freight accounted for 65.0 percent of all goods transported, with the remaining 35.0 percent accounted for by road transport. In contrast, 97.6 percent of passengers traveled using road transport, 2.2 percent used the railway network and 0.2 percent used air travel. Compared to the previous year, the amount of goods transported using road transport increased by 41.7 percent and passengers by 15.8 percent, rail freight increased by 14.2 percent and passengers by 9.6 percent, and air travel passengers rose by 0.8 percent. However, airfreight decreased by 16.9 percent.

Total revenue in 2004 for the transportation sector rose by 22.5 percent reaching MNT 237.3 billion, of which 56.9 percent was derived from rail transportation, 24.5 percent from air and 18.6 percent from road transport.

According to the vehicular census results, 120,400 road vehicles were counted in 2004, up 13.8 percent, or 14,600 on the previous year. Of these, 74.5 percent of vehicles were private cars.

In 2004 the communication sector generated revenue equal to MNT 99.9 billion of which

63.5 percent, or MNT 63.4 billion, came from household expenditure. Telephone lines rose by 5.0 percent, or 6,800 to 142,300 and the number of cell phone users grew by 26.6 percent, or 85,000 to 404,400.

2.2. Government finance

In the reporting year, as preliminary performance shows, budget revenue was MNT 697.4 billion (38.6 percent of the GDP) and budget expenditure was MNT 713.8 billion (39.5 percent of the GDP); thus, current account surplus was MNT 164.6 billion (9.1 percent of the GDP) and budget deficit was MNT 16.5 billion (0.9 percent of the GDP). Percentage share of budget deficit in the GDP was 5.5 percent in 2003 and it decreased by 4.6 percentage points to 0.9 percent in 2004.

Current account surplus increased by MNT 84.5 billion or 205.5 percent while budget deficit decreased by MNT 64.2 billion or 79.5 percent. Comparison of the preliminary and planned performance reveals that current account was higher by MNT 54.1 billion or 48.9 percent from the planned and total budget deficit was lower by MNT 68.6 billion or 80.6 percent. It clearly indicates an improvement in the budget performance from the previous year.

Price increase of our main export products at the world market in 2004 had a significant impact on better performance of budget revenue and tax collection. In the other hand, because GDP growth has been higher than planned, percentage share of budget deficit in the GDP looks like lower. In the case of Mongolia, whose economic growth is highly dependent from exports of mining products, the Ministry of Finance should consider the practice of saving additional export revenue resulted from favorable world price level of main export products rather than spending it for financing current expenditures; and using it when price movements are adverse.

Collection of budget revenue and transactions of state organizations are now executed through single treasure account at the BOM; thus, efficient management of monetary capital as stated in «Law on management and financing of state organizations» has become possible.

Mongolia has higher percentage share of budget expenditure in the GDP (44.4 percent in 2002, 42.2 percent in 2003, and 39.5 percent in 2004) compared to transition economies and Asian developing countries. In our economy, re-distribution of private sector savings by the government is high, and government participation in the economy is expansive; and such factors decrease the return of economy's limited resource and have an impact of crowding out the private sectors. This issue has been mentioned several times in the complete reports of our economy by the Standard and Poors in Singapore, which provides a rating for Mongolia economy.

Implementation of consolidated coordination of monetary capital and improvements in the budget money management have created opportunities to neutralize the seasonal and time effects on budget revenue collection, improve performance of budget service activities, continuously execute planned financing, monitor expenditures, and to utilize domestic resources

Table 6. 2004 General government budget (bln togrogs)

	2003 actual	2003 weight	2004 projection	2004 actual	2004 weight	Percent changes of weight	Percent projection
Total revenue and Grants	535.8	100.0	649.3	697.4	100.0	130.16	107.41
Current revenue	526.4	98.25	643.0	690.5	99.01	131.17	107.39
Tax revenue	404.4	76.82	530.4	578.8	83.82	143.13	109.13
Income tax	81.8	15.27	122.7	143.3	20.55	175.18	116.79
Social security contribution	63.6	11.87	72.1	79.6	11.41	125.16	110.40
Taxes on property	4.5	0.84	4.7	5.6	0.80	124.44	119.15
Taxes on goods and services	190.3	35.52	235.8	243.8	34.96	128.11	103.39
Taxes on foreign trade	32.7	6.10	43.3	44.7	6.41	136.70	103.23
Other taxes	31.5	5.88	51.7	61.7	8.85	195.87	119.34
Non-tax revenue	122.0	23.18	112.7	111.7	16.18	91.56	99.11
Capital revenue	0.8	0.15	0.6	0.8	0.12	100.00	133.33
Grants	8.7	1.62	5.6	6.1	0.87	70.11	108.93
Total expenditure and Net lending	616.5	100.0	734.3	713.8	100.0	115.78	97.21
Current expenditure	446.3	72.39	532.6	525.9	73.68	117.84	98.74
Expenditures on goods and services	286.8	64.26	346.6	345.1	65.62	120.33	99.57
Interest payments	33.6	7.53	27.0	22.1	4.20	65.77	81.85
Subsidies and transfers	125.8	28.19	159.0	158.7	30.18	126.15	99.81
Capital expenditure	88.8	14.40	104.2	102.0	14.29	114.86	97.89
Lending (net)	81.4	13.20	97.5	86.0	12.05	105.65	88.21
Current balance	80.1		110.5	164.6		205.49	148.96
Overall balance	-80.7		-85.1	-16.5		20.45	19.39
Financing	60.3		85.1	16.5		27.36	19.39
Foreign, net	-167.0		55.5	60.6		-36.29	109.19
Domestic, net	227.4		29.6	-44.1		-19.39	-148.9

to finance budget deficit; also have reduced costs of obtaining loans, issuing securities and increasing the efficiency of the government's financial investments. The government traded bonds with value of MNT 113.1 billion in 2003 while in the reporting year, it traded bonds of only MNT 30.1 billion, which is MNT 83.1 billion lower than the previous year.

Budget revenue

Budget revenue reached to MNT 697.4 billion in 2004, which is MNT 48.1 billion or 7.4 points higher than the planned, or grew by MNT 161.6 billion or 30.2 percent from the previous year.

Figure 13. Budget deficit (percentage of GDP)

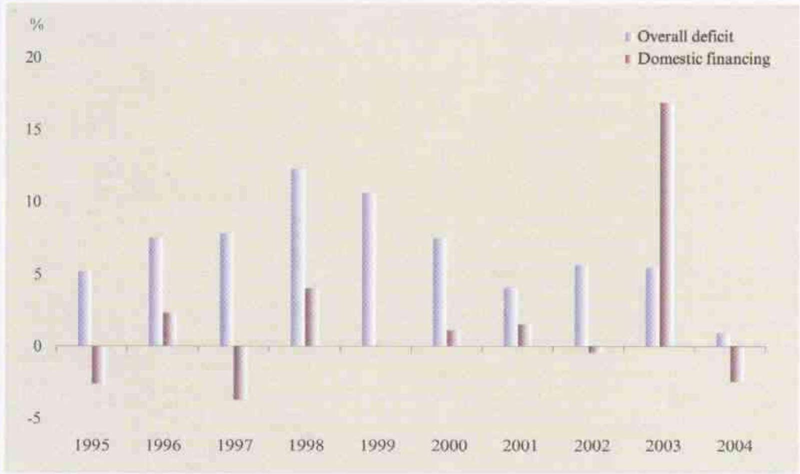


Figure 14. Budget revenue and grants

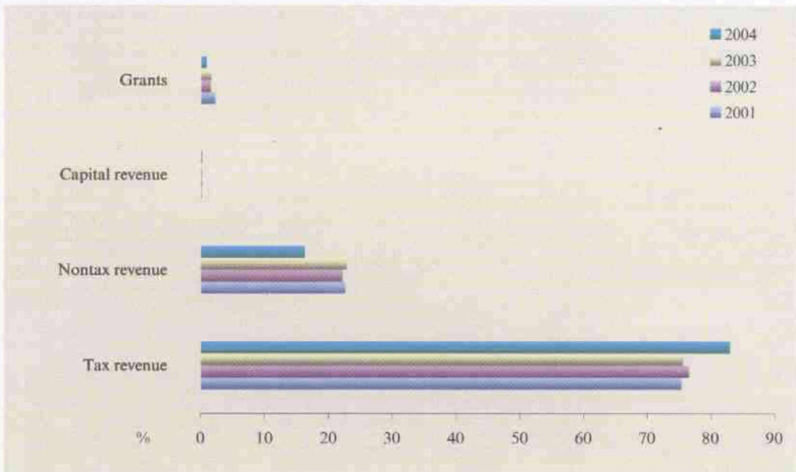
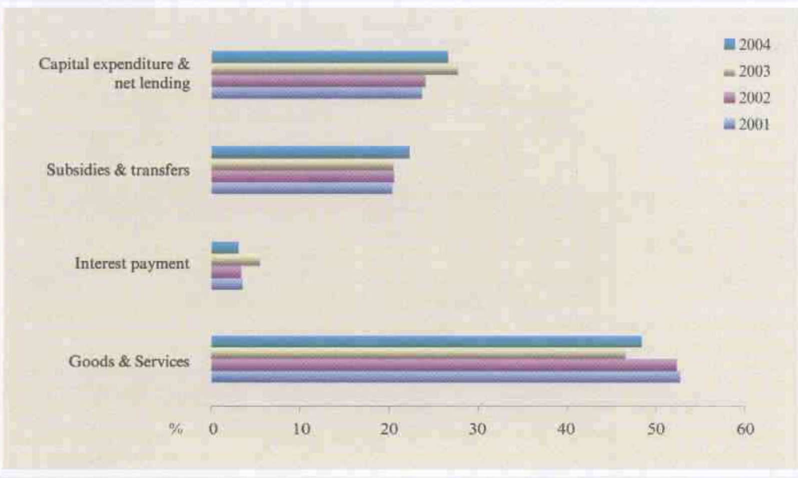


Figure 15. Budget expenditure and net lending



99.0 percent (690.5 billion) of total budget revenues is current account revenues, 0.9 percent (6.1 billion) is grant revenues, and 0.1 percent (0.8 billion) is capital revenues. Compared to the previous year, percentage share of current account revenues increased by 0.8 percentage points, that of grant revenues decreased by 0.8 points while percentage share of capital revenues remained relatively constant.

In the current account revenues, tax revenue was over by MNT 48.4 billion from the planned amount; on the other hand, non tax revenue was short by MNT 1.0 billion or 0.9 percent.

Tax revenue is 83.8 percent of total current account revenues and in classifications of taxes, performance was higher than planned performance. Specifically, income tax was higher by MNT 20.6 billion, other taxes by 10 billion, domestic goods and products tax by 8.0 billion. Difference amount is lower in the cases of foreign trade and other tax performances.

Budget expenditure

Budget expenditure was MNT 713.8 billion in the reporting year and it is lower by MNT 20.5 billion or 2.8 percent from planned amount. However, it was increased by MNT 97.3 billion or 15.8 percent from 2003. If we compare the budget expenditure growth (15.8 percent) with that of budget revenue (30.2 percent), budget revenue growth was higher by 64.3 billion or 14.4 points from budget expenditure.

In 2004, all types of budget expenditures were fell short from the planned amounts or current account expenditures was short by 1.3 percent of MNT 6.7 billion, capital expenditure by 2.1 percent of 2.2 billion, net lending by 11.8 percent or 11.5 billion.

MNT 6.7 billion lower current account expenditure from the planned amount is mostly due to such expenditures as goods and services (by 1.5 billion), loan servicing (by 5.0 billion), transfer expenditures (by 0.3 billion) were cut down.

73.7 percent of budget expenditures was current account expenditures, 14.3 percent was capital expenditures, 12.0 percent was net lending; and 65.6 percent of current account expenditures was goods and services expenditure, 30.2 percent was transfers, 4.2 percent was loan servicing. Compared to the same period of the previous year, percentage share of current account expenditures in total budget expenditures decreased by 1.3 points while that of net lending and capital expenditures increased by 1.2 and 0.1 points respectively.

Percentage share of loan servicing in current account expenditures declined by 3.3 points from the previous year; on the other hand, percentage share of goods and services expenditures increased by 1.3 points and that of transfers by 2.0 points.

2.3. Balance of Payments

The robust growth of world economy in 2004 compared to the last few years, recovery of financial markets, pick up in global trade, a favorable foreign trade environment as a result of higher commodities prices, especially prices of Mongolia's main export items copper and gold, increases in the both inflow of private remittances from Mongolians working abroad and their use of official channels for remittance, and depreciation of togrog real exchange rate contributed positively to the balance of payments.

In the reporting year, Mongolian economy expanded 10.6 percent, net international reserves increased 26.8 percent, trade deficit fell 14.5 percent and budget deficit was reduced to 0.9 percent of GDP. The strengthening of main macroeconomic indicators has established an accommodating environment for sustainable economic growth.

It was an exceptional year as Mongolia's current account balance showed a substantial surplus equal to 4.2 percent of GDP. In contrast to the previous year, Mongolia's terms of trade index improved 17.5 percent due to favorable external factors, togrog real effective exchange rate depreciated 10.0 percent, and bank deposits increased 42.1 percent as a result of climbing household and corporate income.

Terms of trade

A few goods dominate Mongolian exports, yet it imports wide ranging consumer and industrial products. Despite the peculiarity, in 2004 the terms of trade index (table) improved 17.5 percent compared to previous year.

The terms of trade index increased rapidly and climbed above 100 for the first time since the base year 2000. It shows that in the reporting year, the positive external factors outweighed the negatives.

Export and import price indexes with the base year of 2000 are shown in graphs. In the graphs, export price index increased 29.0 percent in 2004 compared to 2000, and 40.7 percent compared to 2003. However, the increase is not evenly distributed among all export goods. It is mostly due to increases in copper and gold prices. For example, gold price rose 55.0 percent compared to the base year, and 5.0 percent compared to 2003. On the other hand, prices of cashmere, hides, and textile products remained stable or declined in 2004.

The import price index increased 25.0 percent in 2004 compared to the base year and 19.7 percent compared to 2003. The pronounced increase in import prices reflected higher oil prices. The import price index equals 114.0 or an increase of 12.3 percent over 2003 excluding oil related products.

Table 7. Terms of trade

Year	2000	2001	2002	2003	2004
Index	100	75.2	81.8	87.9	103.3

Table 8. Balance of Payments (mln USD)

	2004 I	II	III	IV	Preliminary
I. Current account	4.3	-68.7	65.7	62.1	63.4
A. Trade Balance	-61.5	-130.9	-9.1	7.3	-194.2
a. Goods	-31.7	-83.5	11.9	74.3	-28.9
1. Export f.o.b.	132.1	176.3	252.7	311	872.1
1.1. Copper concentrate	58	80.2	64.2	81.9	284.3
1.2. Non-monetary gold	23.7	24.2	82.9	112.4	243.2
1.3. Other	50.4	71.9	105.6	116.7	344.5
2. Import f.o.b.	163.8	259.8	240.8	236.7	901
b. Services	-29.8	-47.4	-21	-67	-165.3
1. Transportation /net/	-12.4	-19.7	-35	-24.7	-91.8
2. Travel /net/, of which:	-7.5	4.4	42.7	-2.3	37.3
- Tourism /net/	-5.1	4.9	45.8	-1.2	44.5
3. Communication services /net/	-0.5	0	-1.9	-1.9	-4.3
4. Construction services /net/	-0.4	-0.2	0	0	-0.6
5. Insurance services /net/	-3.4	-11.4	-10.5	-5.5	-30.9
6. Other services /net/	-5.6	-20.5	-16.3	-32.6	-75.1
B. Net Income	-1.7	-3.9	-0.6	-4.8	-11.1
a. Compensation of employees /net/	2	2	1.5	1.6	7.1
b. Investment income /net/	-3.7	-5.9	-2.1	-6.5	-18.2
C. Current transfers	67.5	66.1	75.4	59.7	268.7
a. General government /net/	21.4	21.9	21.8	21.7	86.9
b. Private remittances	36	38.5	42.4	29.5	146.3
1. Credit	44.6	49.6	56.2	45	195.4
2. Debit	8.7	11.1	13.8	15.6	49.1
c. Other transfers /net/	10.1	5.7	11.2	8.5	35.5
II. Capital and Financial Account	12.1	1.4	-19.2	-17.4	-23.1
A. Capital Account	0	0	0	0	0
B. Financial Account	12.1	1.4	-19.2	-17.4	-23.1
a. Direct investment /net/	24.3	42.9	16.1	9.7	92.9
b. Portfolio investment	-2.5	0	0	-50	-52.5
1. Assets	-2.5	0	0	0	-2.5
2. Liabilities	0	0	0	-50	-50
c. Other investment	-9.7	-41.5	-35.3	23	-63.5
1. Trade credits /net/	0.8	0	-0.6	4	4.2
2. Loans /net/	-17.6	8.9	7.7	55.2	54.2
2.1 Long-term	-1.2	12.5	16.6	52.9	80.7
2.1.1 Assets	1.9	0	0	1.3	3.1
2.1.1.1 Government	0	0	0	0	0
2.1.1.2 Other sectors	1.9	0	0	1.3	3.1
2.1.2 Liabilities	-3.1	12.5	16.6	51.6	77.6
2.1.2.1 Disbursement	15.8	19.8	32.2	89.5	157.3
2.1.2.1.1 Government	15.8	19.1	25	68.9	128.8
2.1.2.1.2 Other sectors	0	0.7	7.2	20.6	28.5
2.1.2.2 Principle debt payment	18.9	7.3	15.6	38	79.7
2.1.2.2.1 Government	2.4	3.8	4	5.8	15.9
2.1.2.2.2 Other sectors	16.5	3.5	11.6	32.2	63.8
2.2 Short-term	-16.4	-3.6	-8.9	2.4	-26.5
2.2.1 Assets	0	0	0.1	0	0.1
2.2.2 Liabilities	-16.4	-3.6	-9	2.4	-26.6
2.2.2 Liabilities	17.4	0.8	1	14.8	34
2.2.2.2 Principle debt payment	33.8	4.4	10	12.5	60.7
3. Currency and deposits /net/	10.1	-50.7	-42.4	-36.3	-119.3
4. Other net assets	-3	0.3	0	0	-2.7
III. Net Errors and Omissions	4.4	73.5	-48.5	-35.1	-5.7
IV. Overall Balance of Payments	20.8	6.2	-2	9.6	34.6
V. Reserve assets	-20.8	-6.2	2	-9.6	-34.6
A. Monetary gold	10.5	23.6	16.4	-45.1	5.3
B. Other net claims	7	-18.2	-22.1	55.4	22.1
C. Use of Fund credit	-3.3	-0.8	-3.7	0.7	-7.1

Figure 16. Balance of Payments (net amount)

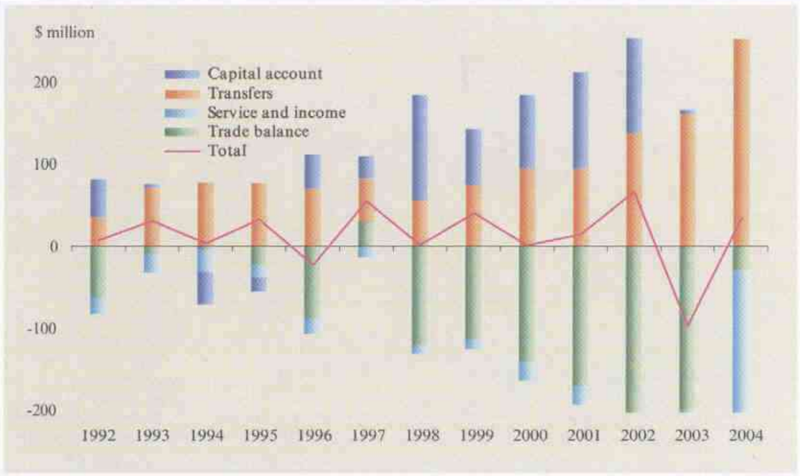


Figure 17. Current account structure in 2004

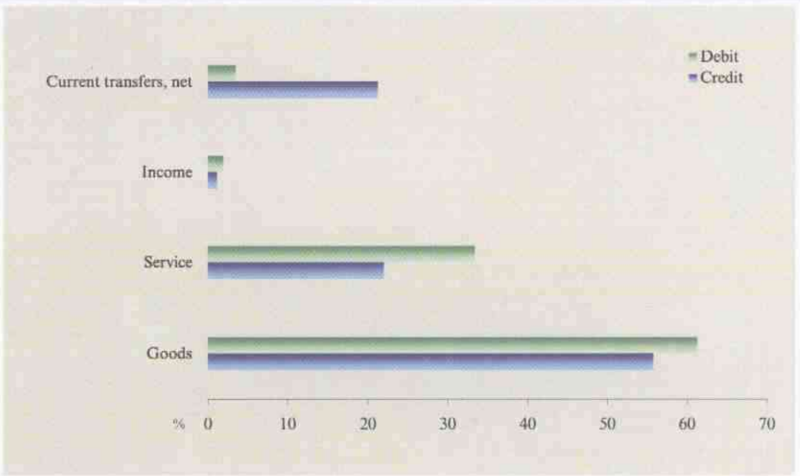
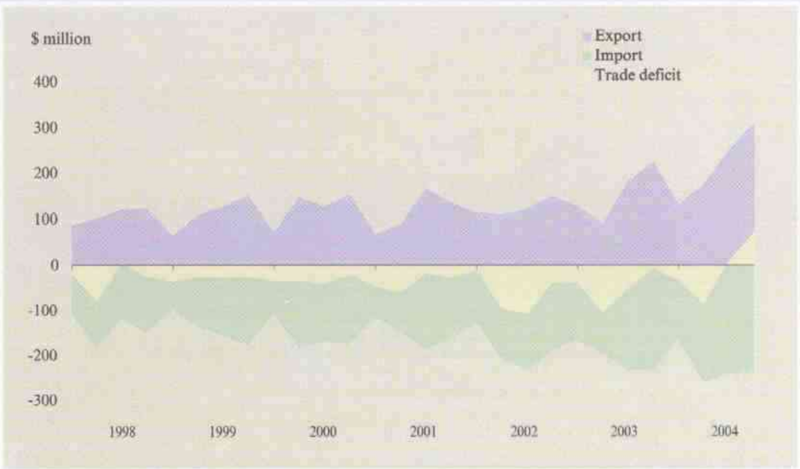


Figure 18. Trade balance



Note: In the new Balance of Payments Guideline, imports are converted from c.i.f. basis to f.o.b. basis using 12.4% coefficient. Exports include sales of duty free shops.

Box 2. Terms of trade and current account

During 2004, prices of our main export commodities, copper and gold, and main import commodity, oil, have been fluctuated significantly at the world market. Interesting question is «How was the net impact of such positive and negative changes on our balance of payment?» Terms of trade are sometimes simply defined as coefficient of capability of buying imports by export revenues. Accordingly, terms of trade is generally determined as ratio of export basket – basket consists of certain export products – index to import basket index.

This research is different from similar researches done previously as it estimated terms of trade index based on taking real value of main export and import products and services in the base year and observing annual imports and exports of those products and services.

Price index of exports and imports

Since terms of trade are defined by ratio of price indices of exports and imports, we have taken the year 2000 as base year and estimated price indices. Total of 14 types of products were included when calculating price index of exports and total value of those goods was 84 percent of the total exports in 2000 and 81.5 percent in 2004.

Table 1. Price indices of exports

Year	2000	2001	2002	2003	2004
Export price index	100	82	84	91	129

Based on the estimation, price index of exports has increased by 29 percent in 2004 compared to the base year, 2000, and by 40.7 percent from the previous year. In other words, Mongolia's average price of export has increased by such percent. However, this increase is mostly due to price increase of major export products such as copper and gold rather than equal growth in prices of each product. For instance, at the end of 2004, world market price of gold increased by 55 percent from the base year and by 5 percent compared to 2003. On the other hand, prices of raw materials such as cashmere, skin and hides, and textile and clothing products have been relatively stable or had decreasing trend during those years.

In import price index estimation, 44 types of products, whose imports in 2004 were higher than USD 2 million, were included. Total value of those products was 54 percent of total imports in 2000 and 50 percent in 2004. Because of weak development of domestic production, our import covers various types of products ranging from food products to technique and machineries. On the other hand, with an exception of oil products, percentage share of those products in the total imports is small; therefore, price fluctuation of single products has very low probability of affecting the terms of trade. Thus, import price index based on prices of those 44 products can represent general trend in the import prices.

Table 2. Import price index

Year	2000	2001	2002	2003	2004
Import price index	100	109	103	104	125

As seen from the table, in 2004, average price of import products increased by 25 percent compared to the base year and by 19.7 percent compared to the previous year. Sharp increase in import price index in 2004 is mostly explained by price increase of oil products, which takes up high weight in imports. If we exclude oil products, import price index is 114 in 2004 or increased by 12.3 percent in 2003.

We could observe very much different trends in dynamics of export and import price indices. As mentioned previously, prices of few, major products increased while prices of other products were relatively stable or decreasing. On the other hand, prices of import products had general trend of increasing. Prices of only 12 out of 44 products slightly decreased while prices of the other products increased. Products, whose prices decreased, are such final consumption goods as potatoes, rice, data processing machineries, and television and their price decrease could be result of productivity growth and technology advances in producing countries rather than competition from domestic producers. In other words, such import trends can be inefficient or have negative impact in long-term and it again reminds us the importance of promoting domestic production of certain products to be less independent from imports.

Terms of trade

It is impossible to directly define whether world market fluctuation had positive or negative impact on our economy since both export and import indices increased from the base year. However, terms of trade index, estimated by ratio of export and import values, quantitatively determine external factors and make it possible to identify real impact. In Table 3 shows terms of trade index, estimated in the way it was described in the beginning of the research, taking 2000 as base year.

Table 3. Terms of trade index

Year	2000	2001	2002	2003	2004
Terms of trade index	100	75.2	81.8	87.9	103.3

Terms of trade index significantly improved in 2004 and was higher than 100 for the first time since the base year; thus, we could conclude that positive impact of price fluctuations was stronger than negative ones. The index increased by 17.5 percent compared to 2003. In other words, in 2004, Mongolia could finance imports with value of 17.5 percent higher than 2003 with export revenue created by exporting the exact same amount of products exported in 2003. This is direct result of positive difference of world market prices.

We have mentioned earlier that prices of copper and gold - major export commodities, and oil – major import product, have had the most fluctuation in 2004. Consequently, it can be interesting and as well as important to estimate terms of trade index for those 3 products and whether price changes had positive or negative impact on our economy. As of the end of 2004, copper and gold exports were 61 percent of the total exports and oil imports were 20 percent of all imports.

Table 4. Changes in exports of copper and gold, and imports of oil products (in thousands of USD)

	Export			Import	Difference
	Gold	Copper	Total	Oil products	
Because of price changes	21,847	123,786	145,633	46,540	99,093
Because of quantity changes	60,757	-3,159	57,598	21,993	35,605
Total	82,604	120,627	203,231	68,533	134,699

As seen from the table, gold and copper export increased by USD 203.2 million and 71 percent of this increase is explained by price increase and 29 percent is by quantity growth. Imports of oil products increased by USD 68 million, 68 percent of which is resulted by price increase and 32 percent is by quantity growth. In total, difference between exports of gold and copper and imports of oil products increased by USD 134.7 million in 2004 compared to the previous year.

Figure 19. Price index of exports and imports

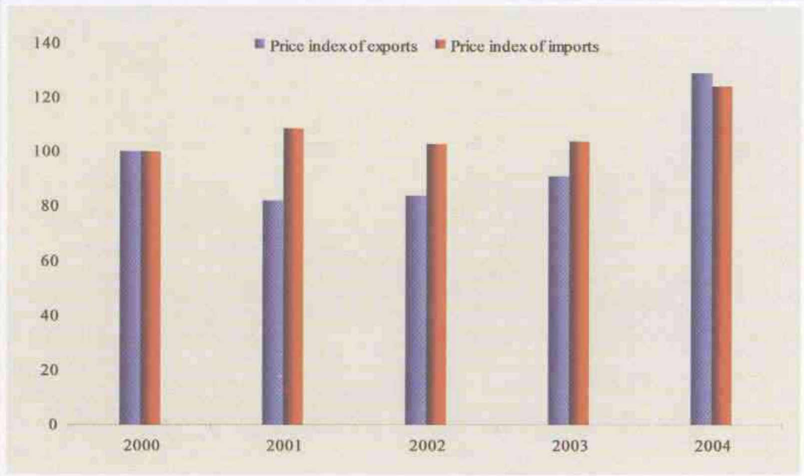


Figure 20. Tourism sector income

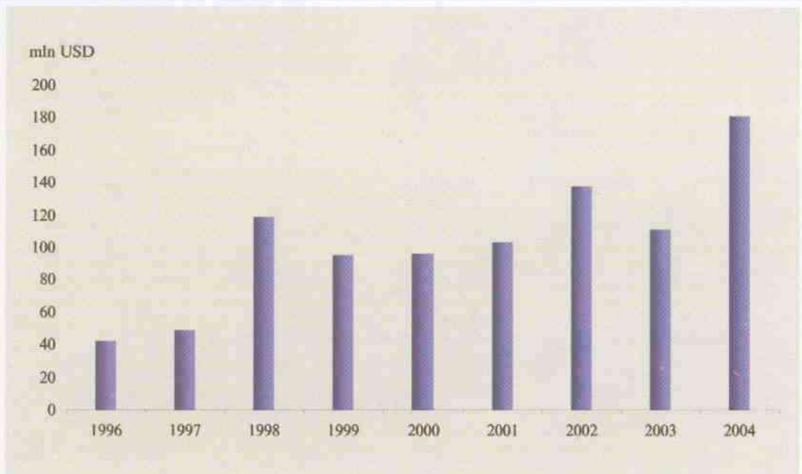


Figure 21. Foreign Direct Investment

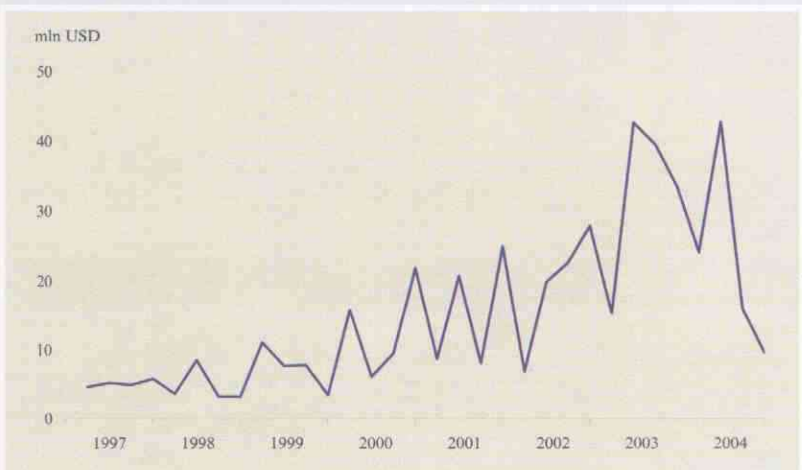


Table 9. Nominal effective exchange rate (NEER) and real effective exchange rate (REER)

	2002	2003	2004
NEER	99.92	92.16	83.02
REER	101.15	92.87	83.56
CPI (change)	1.6	4.7	11

Current account

In the reporting year, the current account balance had a surplus of USD 63.4 million or an increase of USD 162.1 million compared to the previous year. It is equal to 4.2 percent of estimated GDP. The trade deficit was USD 28.9 million, narrowing 87.3 percent compared to 2003. Trade deficits since 1996 are shown in a graph. Trade surplus in the second half of the year as a result of depreciating togrog, and rapidly increased inflow of current transfers, in particular private remittances from Mongolians working abroad, positively affected the current account balance.

The private remittances inflow rose by USD 66.8 million over the previous year, and reached USD 195.4 million or 12.8 percent of GDP in 2004. In Philippines the ratio is 8.9 percent and in Sri Lanka it is 7.0 percent. The government received USD 88.0 million in technical assistance from international organizations and donor countries. At the end of the year, the service account deficit stood at USD 165.3 million.

Foreign trade

In 2004, foreign trade turnover increased by USD 473.9 million or 33.4 percent over the previous year, amounting to USD 1,890.8 million. The trade deficit equaled USD 151.4 million. The ratio of foreign trade turnover over GDP since 1996 is shown in a graph. The steps taken to liberalize foreign trade since 1991 have stimulated foreign trade, enhanced structure, quality and level of consumption, and boosted development of the economy.

In the balance of payments, imports are converted from C.I.F. basis to F.O.B. basis in order to estimate transportation and insurance costs. After converting, imports equaled 901.0 million USD, and trade in goods account deficit equaled USD 28.9 million.

In 2004, exports increased by 36.4 percent and imports increased by 8.0 percent compared to the previous year. Although the volume of copper export decreased by 6.28 tons in 2004,

Table 10. External debt statistics (in percent)

	Level of confidence	2002	2003	2004
External loans outstanding / GDP	60	61	67	57.80
External loans outstanding / Export	150	131	139	119
Total payments / Export	25	6	6	13.50

Table 11. Changes in Exports and Imports of Gold, Copper and Oil (in thousand USD)

	Exports			Imports	Difference
	Gold	Copper	Total	Oil	
Increase due to change in price	21,847	123,786	145,633	46,540	99,093
Increase due to change in volume	60,757	-3,159	57,598	21,993	35,605
Total increase/decrease in export	82,604	120,627	203,231	68,533	134,699

due to copper price increases on the global market, copper exports increased by USD 120.6 million or 73.7 percent compared to 2003. On the other hand, gold export increased in both volume and value. Gold export rose 5.1 tons in volume and USD 85.9 million or 1.5 times in value over the last year. In 2004, overall gold and copper exports increased by USD 206.6 million, of which 71.0 percent was due to price increase and 29.0 percent was due to increase in volume. The imports of petroleum products rose by USD 68.0 million compared to 2003. Of the total increase, 68.0 percent was due to price increase and 32.0 percent was due to increase in volume.

At the end of 2004, togrog real effective exchange rate was 83.02, which is 9.9 percent lower than the previous year. The small difference in togrog REER and NEER is because of our trading partner countries' inflation rates are very low compared to ours.

Services and Current transfers

In the reporting year, the service account receipts equaled USD 338.2 million and payments equaled USD 503.5 million. The service account deficit grew USD 116.2 million over the previous year, amounting USD 165.3 million.

Tourism sector was the largest source of revenue, contributing USD 185.1 million, for the service account. Its revenue grew USD 42.1 million or 29.4 percent compared to the previous year. Last year, a total 305,617 foreign citizens visited Mongolia, of which 300,537 were tourists. They contributed USD 185.1 million to the Mongolian economy. Tourism sector revenue since 1996 is show in a graph.

The USD 268.7 million surplus of current transfer was because of USD 88.0 million the Government received in technical assistance, and USD 195.4 million in inflow worker's remittances. The inflow of workers remittances grew USD 66.8 million in 2004.

The inward remittances from Mongolians working abroad increased 51.9 percent compared to the previous year. It was due to depreciation of the US dollar which amplified the value of remittances from Great Britain and Germany, increase in the number of people officially working abroad, sharp increase in the remittances from Japan (in 2004, inward remittances from Japan were USD 20.7 million), and better reflection of private remittances inflow in the official statistics as a result of five commercial banks opening representative offices in South Korea in December, 2003.

The assistance from donor countries and international organizations increased USD 37.5 million or 74.2 percent compared to 2003, which significantly boosted the current transfer balance.

Capital and Financial account

The capital and financial account had a deficit of USD 23.1 million, which is nearly 5.7 times lower than the amount of 2003. The inflow of foreign direct investments equaled 6.1 percent of the GDP, a decrease of 30.0 percent compared to the previous year. The portfolio investments and other investments remained in deficits at USD 52.5 million and USD 63.5 million respectively.

According to the Foreign Investment and Foreign Trade Agency, a total of 870 foreign enterprises registered to invest USD 237.0 million in Mongolia, out of which companies from China, Canada, Great Britain, Israel, South Korea, Japan and the US accounted for nearly 95.0 percent of the total investment.

The mining sector continued to attract the most investment with 62.0 percent of the total, followed by retail and food sector with 16.0 percent and banking and financial sector with 8.0 percent.

International Financial Corporation, a member of World Bank Group, and Asian Development Bank invested USD 3.0 million in the TD Bank, and ADB and DAI Inc of the USA invested USD 1.5 million in the AG Bank. In addition, foreign investors invested USD 11.0 million in the Chingis Khaan bank.

Table 12. The Bank of Mongolia foreign currency trade (in thousand U.S. dollars)

Entity	Purchase			
	I quarter	II quarter	III quarter	IV quarter
Banks	15,000	19,025		
Government	234	234	83	16,736
Total	15,234	19,259	83	16,736

Entity	Sale			
	I quarter	II quarter	III quarter	IV quarter
Gold companies	114	1,109	3,352	1,161
Banks	15,570	13,660	38,885	29,630
Government	-	13	9,995	20,400
Total	15,684	14,781	52,231	51,191

In the reporting year, USD 128.8 million Government loan disbursements were made, of which loans from the ADB, the World Bank and the Government of Japan accounted for 88.0 percent of the total loan. The total debt service payments equaled 9.8 percent of the GDP. The principal and interest payments on the USD 50.0 million government bond issued to the Ivenhoe mines company negatively affected the financial account.

In 2004, the Government paid USD 85.9 million for debt service, of which USD 70.3 million were made for principal, and USD 15.5 million were made for interest payments. The government received USD 128.8 million in foreign loans. At the end of the year, outstanding foreign debt stood at USD 1,360 million. The ratios of total Government foreign debt to the GDP and export are shown in table.

2.4. Prices and Wages

In recent years inflation rate has been reduced and its fluctuation has been stabilized. This has had a favorable influence on the economic environment. At the end of 2004, inflation was 11.0 percent, an increase of 6.3 percentage points over the same period in 2003. It was highest rate since 2001. The jump is mainly supported by direct and indirect influence of the consecutive growths in the price of imported fuel.

If we consider the dynamic of consumer price index, there have been a tendency in the last several years that the overall index increased in the first half of the year, but decreased in summer, then, it went up again at the end of the year. For instance, in the previous years, the deflation, which was observed during the summer, existed from June, sometimes July until August or September. Because the price level decreased in the summer due to an increase in supply of meat and milk products and vegetables, which are given heavy weight in the consumer basket and thus the price index of the food group was changed to the same direction.

However, in 2004 the overall index increased in the summer, consequently inflation rate rose by 4.6 points from an average of the previous six years. An increase of 27.7-49.5 percent in price of imported fuel from June through October pushed up prices of other consumer goods and caused a change of the overall index to opposite direction.

By the direct influence of growth in imported fuel, the index of subgroup of the transport increased by 11.6 percent in 2004. As a result, the overall index grew by about 0.8 points. Also, a growth in fluctuation of the togrog rate was due to an increase in base price or fuel price. Thus, it is complicated to define precisely the indirect influences of growth in fuel price on consumer goods price and other import goods.

More increase in prices of some foodstuffs in summer and autumn compared to the previous years' average reveals that above mentioned indirect influences.

For instance, an increase in price of meat and meat products rose by 5.0-13.1 points from the last 5 years' average from June to September. Moreover, a growth in prices of flour and flour products was higher by 1.5-2.9 points from the previous 3 years' average, and potato and vegetables by 7.5-13.4 points from July to August.

Box 3. Core Inflation

I. Introduction

Since the 1990s central banks have changed monetary policy framework by recognising the maintenance of low rates of inflation as their primary objective and announced inflation target explicitly or implicitly to general public. In this regard, central banks focused on the proper measurement of inflation and recognized that the CPI inflation rate might give a misleading impression of the general trend of prices so that they started constructing measure of core inflation by adjusting CPI inflation. The purpose of this paper is to update the working paper on core inflation for Mongolia carried out in 2002 and estimate the effect of supply shock on inflation rate (11%) in 2004.

II. Methods of estimating core inflation

There are the most common approaches to deriving measures of 'core' inflation from the CPI (Roger 1995). These include:

1. Adjustment by exclusion. This method involves modifying the domain of the CPI to exclude component price series judged likely to display perverse behavior (e.g. interest rate components) or to be prone to exceptional or non-representative price (e.g. seasonal food and energy components). Mortgage interest payment, for instance, is excluded from CPI in developed countries.

2. Adjustment by smoothing. Typically this involves some form of time-series averaging, either at the level of the individual price series or at the aggregate level, to remove the effects of deterministic seasonality. By removing these effects, a clearer sense of the ongoing trend may be obtained.

3. Specific adjustment. This involves modifying recorded price changes at specific times to eliminate the influence of specific developments on the measured aggregate inflation rate.

There are stochastic approach of core inflation of S.Roger and Structural Vector Autoregression method except these approaches. A key element of Roger approach is to think of the distribution of price changes in a particular price index such as the CPI as being a particular sample drawn from a characteristic population distribution of price changes. The basic idea behind so-called robust estimators of central tendency is to define a measure of central tendency that is likely to be relatively unaffected by unusual or 'bad' sample distributions of price changes.

Quah and Vahey (1995) estimated core inflation using structural vector autoregression. They assume that observed changes in inflation are affected by two types of disturbance, each uncorrelated with the other. First of these disturbances has no impact on real output in long run. The second has unrestricted effect on inflation and real output, but does not affect core inflation. In other words, an estimate of core inflation is constructed by first disturbance which has no impact on real output and identification technique is similar to dynamic long run restriction employed by Blanchard and Quah (1989).

III. Estimation

Exclusion-based approach

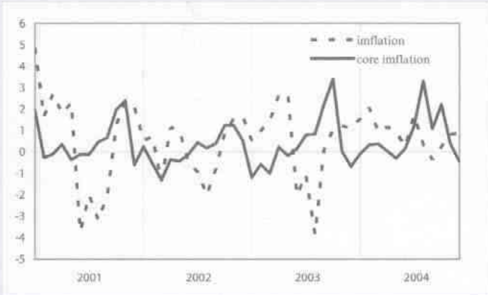
Core inflation is computed by placing a zero weight on the excluded seasonally fluctuated sub-group: meat & meat products (weight-12.4%); milk & dairy products (wieght-5.2%); potatoes & vegetables (weight-4%) and proportionally increasing the weights of the remaining components.

It can be seen from graph 1 that seasonal swings are removed from the core inflation and it shows general trend of that monthly inflation rate. Compared with seasonally unadjusted inflation, core inflation falls slightly in the beginnings of year and considerably rises in November to December. It is observed from the annual inflation graph 2 that core inflation movement is very different from inflation during mid-year but very similar to inflation in the end of year. In other words, there are no supply shocks. However, in 2004 core inflation rose to 8.5 percent which is less than inflation by 2.5 percent.

Smoothing-based approach

In order estimate core inflation by this approach, stable seasonality of sub-group of the CPI basket is tested using Census X-12 seasonal adjustment method. This method has become most popular and is widely used in government and business. Census X-12 method tries to decompose the series into the trend component, seasonal component, and remaining variability using statistical test. It is found that meat & meat products, milk & dairy products, potatoes & vegetables display significant stable seasonality, hence core inflation is measured by seasonally adjusting these sub-groups.

Graph 1 Core inflation and inflation (monthly changes)



The stochastic approach

In order to analyze the distribution of price data, I took the monthly CPI data and then focused on quarterly price changes for the Subgroup data (not the item level data). Instead of averaging price levels in each quarter and then looking at the change in average prices, I pooled 3-month price changes.

In order to remove seasonality 3 series are seasonally-adjusted: meat & meat products; milk & dairy products; potatoes & vegetables. The other series were not adjusted as they did not display significant stable seasonality

Now if you look at the moments of the distribution, you will see that the skewness has below normal kurtosis (-0.2) and the median value of skewness is +0.5. Then look at the mean percentile. Its excess kurtosis is 7.0 and the mean and median values are equal to 0.55, 0.57 respectively. The average inflation rate associated with the 55th percentile is 1.19 percent, compared with 1.23 percent for the CPI mean.

It is observed that movement of core inflation is very similar to inflation in 2001 to 2003. In other words, there are relatively small amounts of supply shock in this period. But in 2004 core inflation rose to 7.5 percent which is less than inflation by 3.5 percent. This is because of an increase in oil price that maintained from July of last year or supply shocks of high oil price.

IV. Conclusion

Since seasonal factors (e.g. food supply) are very significant within Mongolian economy, it might be desirable to remove these factors from CPI basket for the formulation of monetary policy. Inflation measured by exclusion-based approach that excludes meat & meat products, milk & dairy products, potatoes & vegetables from CPI basket is quiet different from CPI inflation, which is currently used. In 2004 core inflation rose to 8.5 percent which is less than inflation by 2.5 percent. This is because of an increase in oil price that maintained from July of last year or supply shocks of high oil price. Furthermore, the use of the robust measures of core inflation does a pretty good job of seasonal adjustment and seasonal adjustment cleans out a lot of the relative price disturbances.

In the reporting year, the price increase of foodstuff subgroup grew by 7.5 points to 15.2 percent due to price increase of above mentioned foodstuffs, which are given heavy weight in the consumer basket.

Also, price of the transport and communication subgroup rose by 21.9 percent. This was higher than the previous year figure by 20.3 points. This was affected growth in fuel price and growth of 70.1 percent in phone call charge. For this reason, the price of communication service subgroup increased by 42.9 percent.

Growth in prices of household goods, housing, heating, electricity, clothing, footwear, and cloth subgroup went up by 1.3-6.6 points from the previous year. However, price growth of other goods and services decreased compared to the previous year.

Minimal wage has increased according to Government policy, which making actual level on labour valuation and establishing a proper proportion between the minimum wage, subsistence living requirements and pensions. In particular, the minimum wage was MNT 18,000 per month in 2000, MNT 24,750 in 2001, MNT 30,000 in 2002, MNT 40,000 per month in 2004. This establishes a proper proportion between the minimum wage, subsistence living requirements and pensions provided by the Social Security and Social Insurance Funds.

Due to pension providing requirements of Social Insurance Funds has changed, minimal reimburse remained at MNT 11,000 in 2000. Government improved minimal pension, therefore, minimal pension reached to MNT 16.0 thousand in 2000, MNT 18.3 thousand in 2001, MNT 22.6 thousand in 2002, and MNT 32.0 thousand in 2004.

By the end of 2004, the average monthly salary of workers engaged in enterprises across different ownership and economic activity types amounted to MNT 93,000, which is MNT 11,600 or 14.2 percent, higher than in the same period of 2003. If wages are broken out by economic sector, workers engaged in hotels and restaurants, construction, electricity, gas and water supply, financial intermediation, transport, storage and communication come out on top with

Figure 22. CPI group index, (2000.12=100)

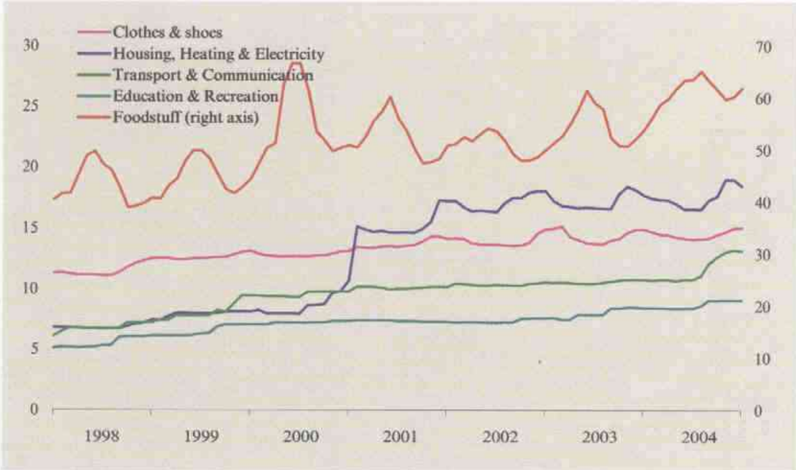


Figure 23. Consumer Price Index (in percentages, 2000.12=100)

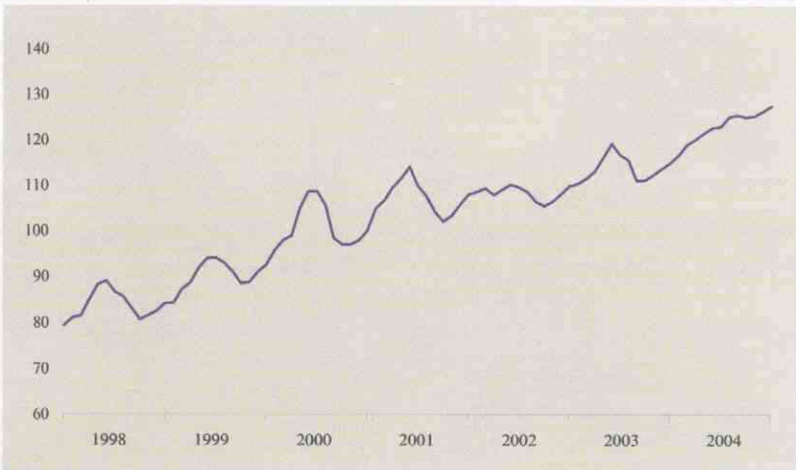


Figure 24. Consumer price index for foodstuff sub-groups, (2000.12=100)

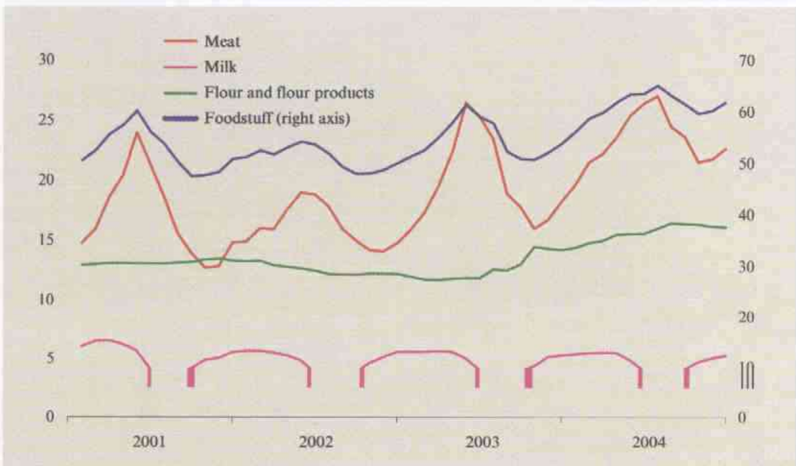


Table 13. Employees' average monthly wage by industry (in thousand togrogs)

	2002	2003	2004	Growth
Agriculture	46.2	48	52.6	9.6
Mining sector	77.4	88.7	89.7	1.1
Industrial production	68.7	82.7	92.8	12.2
Energy	81	97.1	111.8	15.1
Construction	90.6	85.9	99.6	15.9
Trade	57.6	64.6	73.8	14.2
Hotels	80.4	88	100.4	14.1
Transport and communication	90.9	106.1	109	2.7
Financial regulation	83.2	103.8	125.4	20.8
Real estate	55.3	65.3	66	1.1
Administration	66.5	78.2	94.4	20.7
Education	64.5	77.5	88.2	13.8
Health and social programs	51.5	60.8	79.9	31.4
Social service	50.7	53.7	62.4	16.2
Overall average	71.3	81.5	93.1	14.2

monthly salaries MNT 6.0 thousand to MNT 32.3 thousand higher that average. Meanwhile workers in agriculture, hunting and forestry, real estate, renting and other business activities health and social security, community, social and personal services fare less well with monthly salaries MNT 13.2 thousand to MNT 40.5 thousand below average.

Averagely, salary of male workers was MNT 102.6 thousand, that is higher that female workers' salary by MNT 12.7 thousand or 14.1 percent.

2.5. Labor market

At the end of 2004, the population of Mongolia was 2,506.3 thousand of which 1531.1 thousand were working age, 986.1 thousand persons were in the labour force and 950.5 persons were employed.

According to administration register report, 266.3 thousand people were without a job in 2004. If we exclude inactive people such as infant, pensioner, patient, in-patient, about 180 thousand people were unemployed. At the end of the reporting year, the number of people registered as unemployed was 35.6 thousand, 6.7 percent or 2.2 thousand people higher than in the previous year. While 45.7 percent of all registered unemployed had been previously employed, the residual 54.3 percent have no working experience. In 2004, 58.2 thousand people were newly registered at the city and municipal labour bureaus.

To reduce poverty and support economic growth, it is essential to implement a rational labour policy in compliance with market principles. Breaking out unemployment by age shows that 23.5 percent are between the ages of 16-24, 33.8 percent are between the ages of 25-34, 29.4 percent are between the ages of 35-44, 13.3 percent are between the ages of 45-59.

Furthermore, breaking out the unemployment statistics by level of education reveals that 9.8 percent have higher education, 8.6 percent have specialized secondary education, 10.5 percent have technical and vocational training, 65.3 percent have upper and compulsory secondary education, 5.0 percent have primary education and that 0.8 percent have no formal education.

In the 2004, 38.3 thousand people newly employed, of which 12.0 percent were hired by state-owned enterprises, and remaining 88.0 percent by corporation, cooperatives and by others.

Within the framework of the ADB-funded Employment Generation Project, the Government of Mongolia has issued loans to economic entities and individuals to the value of MNT 9.4 billion through Golomt, Zoos, Erel, Transport Development banks during 2001-2004 and as a result, 4534 jobs were created.

3 MONETARY AND FINANCIAL SECTOR DEVELOPMENT

In the reporting year the Bank of Mongolia operated to increase the economic growth, to provide favourable conditions for businesses and to develop a monetary policy in accordance with the financial sector development. Banks have performed their financial duties successfully and in comparison with 2003 the total amount of deposits increased by 1.3 times, credits by 1.4 times, equities by 1.5 times and the share of non-performing loans in total outstanding credit remained unchanged.

The NBFI's operated actively on non-bank part of the financial sector and as a result their deposits increased by 2.5 times, equity increased by 51.1 percent, net credit by 47.0 percent, total assets by 51.6 percent, respectively. The activities of the Savings and Credit cooperatives which are a part of the non-banking sector expanded in the year 2004. However, sound regulations to monitor and regulate their growth are missing. Unfortunately, the capital market - the second channel of financial intermediation is still weak and underdeveloped and the monopoly of the banks on the financial market is remaining.

3.1 Money supply

In 2004 the total money supply (M2) increased by 20.4 percent or by MNT 143.7 billion from the beginning of the year and it reached MNT 847.0 billion. This implies that in the year 2004 in Mongolian economy circulated MNT 847.0 billion in both cash and non-cash forms.

The growth rate of money supply has decreased in comparison with the previous year by MNT 89.5 billion or by 29.2 percentage points, which mainly was a result of decline in the growth rate of togrog and foreign currency time deposits (quasi money).

The 94.1 percent of the money supply growth, which is 4.9 percent higher than that of the previous year, was provided by the growth of quasi money. The share of currency outside of the banks and togrog demand deposits (M1) to the money supply growth decreased accordingly by 4.9 percent in the reporting year.

The changes in the structure of money supply show that in the reporting period the annual growth rate of monetary aggregates decreased. Particularly, annual growth of M1, togrog deposits and foreign currency deposits from the beginning of the year decreased by 9.4, 38.0, and 55.3 percentage points, respectively.

Table 14. Main ratios of the financial sector (percent)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
M2/GDP	52.4	27.6	21.9	23.7	18.5	19.9	20.4	20.5	23.8	25.4	29.7	37.9	51.6	46.8
Loan/GDP	68.0	40.4	16.2	16.3	11.4	10.0	6.1	10.5	8.4	6.6	12.1	18.7	32.5	33.6
Quasi money/GDP	13.8	11.4	12.4	13.5	10.8	9.9	11.3	10.4	11.4	12.6	15.7	22.8	36.0	34.6
Currency outside banks/M2	17.1	14.1	20.5	24.4	25.1	32.5	29.3	33.7	39.6	39.0	33.0	25.7	18.7	16.9
Loans outstanding (in billions of togrogs)	12.9	19.1	31.6	52.8	62.7	64.8	50.4	85.6	77.5	66.8	135.1	231.4	442.1	606.8

In terms of the balance sheet items, 38.0 percent of the annual growth of money supply was been provided by an increase in net foreign assets and the remaining 62.0 percent was provided by an increase in the net domestic assets of the banking system. The sharp fluctuations in net foreign and net domestic assets in 2003 determined their tendency in 2004. The annual growth rate of Net Domestic assets fell down by 156.7 percentage points from the beginning of the year and reached 19.9 percentage. At the same time, those of the Net Foreign Assets increased by 38.2 percentage points and reached 21.3 percent. Although, the annual changes of Net Foreign and Domestic assets in comparison with the previous year were substantial, the annual growth rate of money supply within the year was relatively stable. And the reason for that were the mutually offsetting changes in NDA and NFA.

In the reporting year, the Net Credit from the banking sector increased by MNT 132.2 billion or by 25.7 percents from the beginning of the year. As a result, the Net Domestic Assets were pushed up 19.9 percent or by 89.0 billion MNT. Net Credits to the Government decreased by MNT 56.2 billion or by 58.1 percent whereas the net credits to the private sector increased by 46 percent or by 168.0 billion MNT.

In the reporting year Net Foreign Assets increased by MNT 54.7 billion or by 21.3 percent from the beginning of the year. As a result, the net official foreign reserves increased by MNT 47.1 billion or by 26.8 percent. The main contributors to the growth of official reserves were Monetary gold increased by MNT 9.3 billion which is 2.2 times higher than it was at the end of the previous year and time deposits at foreign banks increased by MNT 26.5 billion or by 20 percent.

From the year 2000 financial intermediation of Mongolian banking sector which successfully overwhelmed the banking crisis of 1990's, started to improve substantially and within the period 2000-2003 the main indicators such as volume of savings and credits increased sharply. Moreover, starting from 2002 Mongolian financial market has been experiencing the emergence of new players - Non-bank Financial Institutions and Credit and Savings cooperatives, which increased the competition and significantly widened the scope and forms of financial intermediation in the market.

In spite of this, beginning from 2004, the growth rate of quantitative indicators started to slow down and the competition in banking sector started to turn into qualitative parameters. Consequently, the requirement for banks to increase the volume of their capital to 8 billion togrog which is indicated in Law, will certainly contribute to this qualitative changes.

Figure 25. M1, M2 and Quasi Money

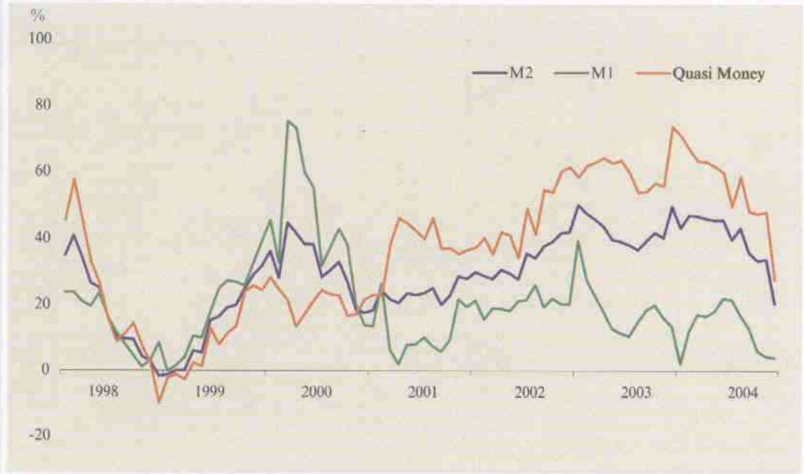


Figure 26. Composition of money supply growth

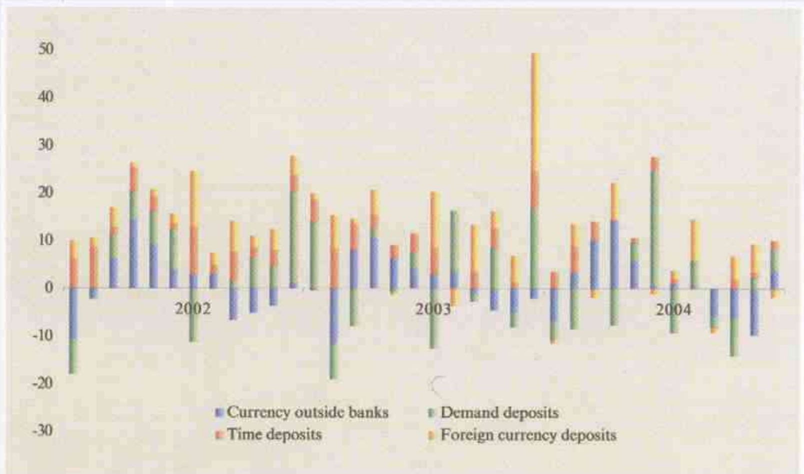


Figure 27. Money supply, net domestic and foreign assets

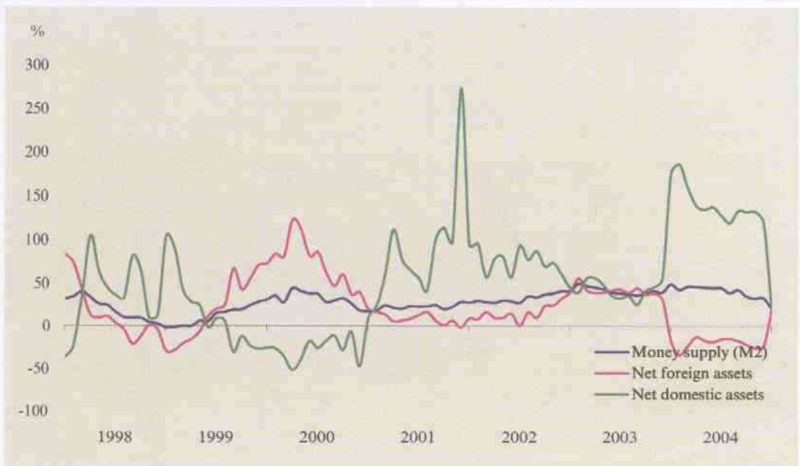


Table 15. Changes in reserve money, M2, CPI and exchange rate (in percentages)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Reserve money	-100.0	157.1	168.6	104.1	28.7	36.5	23.1	18.7	49.9	18.6	8.2	21.9	14.5	17.0
Broad money (M2)	-99.8	31.6	227.6	79.5	32.9	25.8	32.5	-1.7	31.6	17.6	27.9	42.0	49.6	20.4
CPI	52.7	325.5	183.0	66.3	53.1	44.6	20.5	6.0	10.0	8.1	8.0	1.6	4.7	11.0
Exchange rate	625.8	0.0	891.3	4.4	14.4	46.4	17.3	10.9	18.9	2.3	0.5	2.1	3.8	3.5

Narrow Money M1

In 2004 narrow money (M1) increased by MNT 8.4 billion and reached MNT 221.3 billion, which is 26.1 percent of total money supply. The sharp decline in togrog deposits in the reporting year led to 9.4 percentage point decrease in narrow money (M1) growth and 4.2 percentage point fall in its share in total money supply.

Currency outside the banks and cash in banks increased by MNT 12.0 billion or 9.1 percent and by MNT 3.7 billion or 17.3 percent, respectively, while togrog demand deposits decreased by MNT 3.5 billion or by 4.3 percent. Following the demand for cash in economy the annual growth of narrow money was consistently rising during the first half of the reporting year, however in the second half it was consistently falling. In the reporting year the annual growth of togrog deposits was relatively stable in comparison with previous years and it had a tendency to increase in the summer time and decrease in other times of the year.

The ratio of currency outside the banks to the M2 is an indicator of how much individuals and business owners confide in the banking sector. This indicator was 39.0 percent in 2000, 18.7 percent in 2003 and in the reporting year it decreased to 16.9 percent.

Quasi money

In 2004 quasi money increased by MNT 135.2 billion or by 27.6 percent and reached 625.7 billion MNT, which is 73.9 percent of total money supply. Togrog deposits and foreign currency deposits increased by 25.3 percent and 29.3 percent and reached MNT 301.0 billion and MNT 324.7 billion respectively. Since 2000 growth in togrog deposits was the main contributor to the growth of quasi money. However, in the reporting year the share of togrog deposit contribution declined while the share of foreign currency deposits increased to 55.1 percent of quasi money growth. This change in tendency might have been caused by uncertain situations arised after the parliament election. The annual togrog deposit growth which was consistently rising since 1999 fell down from 63.2 percent to 25.2 percent in the reporting year. Although the annual growth of foreign currency deposits was relatively stable in 2004, it increased by 16-35 percentage points in July and December due to the fluctuations in exchange rates.

In particular, the deposits and loan that grew from a low base level changed and starting from 2004 the trend was likely to grow slowly from a high base level.

Figure 28. Composition and growth of narrow money, M1 (in percentages)

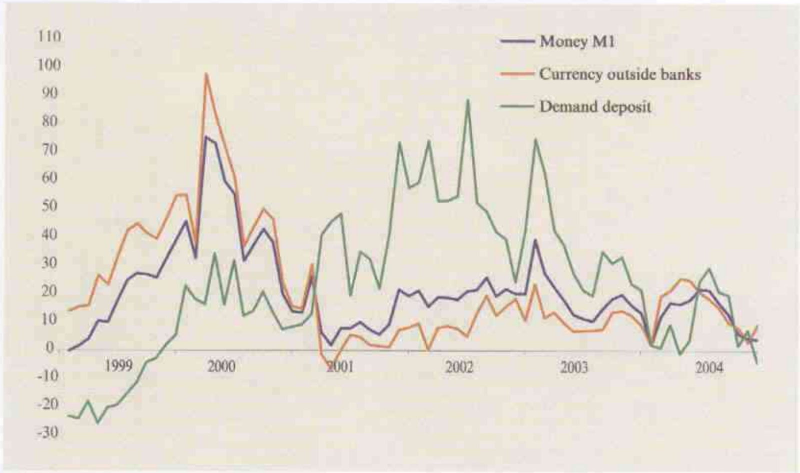


Figure 29. Inflation, in comparison with the previous year

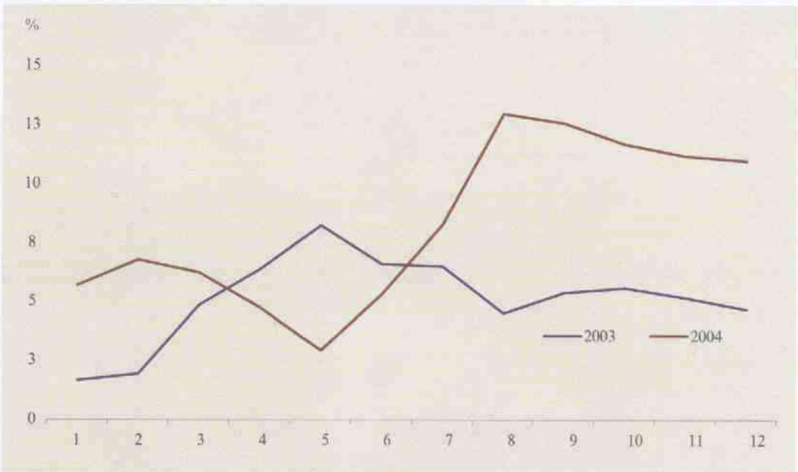
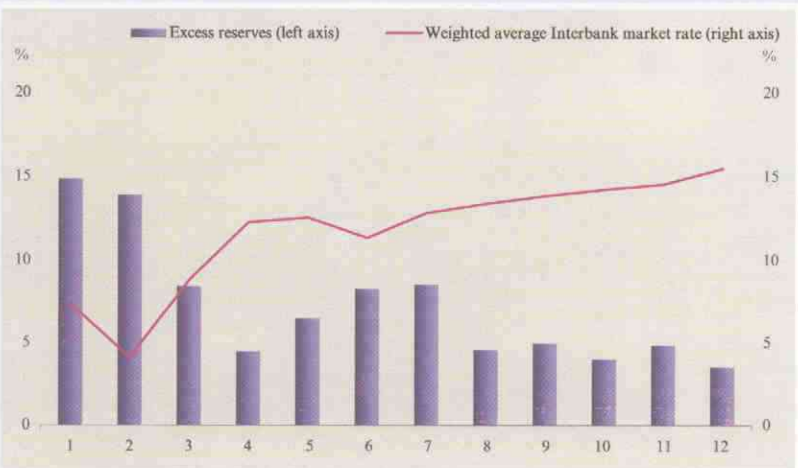


Figure 30. Excess reserves and weighted average Interbank market rate



3.2. Monetary market

The monetary market plays a significant role for the banks to enable them meet the reserve requirements, in performing the settlement transactions of customers fast and managing the reserves efficiently. Moreover, the inter-bank market plays an important role in implementing monetary policies and it provides the interest rate and the benchmark rates of the financial instruments.

In the reporting year transactions of MNT 604.8 billion were made between banks. Transactions of MNT 12.3 billion were performed as inter-bank loans, MNT 377.4 billion was made by the repo contract of the Central bank bills (CBB), MNT 110.8 billion by the secondary market trade of CBB, and MNT 104.4 billion was made by overnight loan. The inter-bank market has been active since 2002 and this has enabled banks to improve their asset management. Also it enabled the Central Bank to give a proper interest rate signal to the market. The weighted average interest rate of all transactions made on the inter-bank market during the year was 14.36 percent per annum which is 4.1 percentage points or 1.4 times higher than in 2003 and 7.5 percentage points or 2.1 times higher than in 2002. This was a result of tightening of the monetary policy.

The triggering of the inter-bank market can be seen from the fact that in 2004 the total amount of transactions made on the inter-bank market increased by 79 percent in comparison with the previous year. 84 percent of total transactions on inter-bank market were made by the following banks Trade and Development Bank, Haan bank, Mongol Post, Saving, Anod, and Golomt banks and remaining 16 percent are transactions made by other banks. In the reporting year on the inter-bank market banks purchased USD 890.5 million while the sold amount accounted for USD 901.2 million.

3.3. Capital market

Broadly, 395 companies' 2.0 billion shares were registered in Mongolian Stock Exchange. Of which 1.8 billion, or 87 percent, belonged to the state. Compared with previous year, the state owned shares has increased by 6.7 percent.

The total companies' 67 were state-owned. Compared with previous year, state-owned companies declined but the number of shares held by the state increased. The State Property

Table 16. Capital market transactions

	Transaction amount		Change (increase, decrease)	
	In 2003	In 2004	of value	of percentage
Government bonds	21,722.5	12,463.8	-9,258.7	-42.6
Corporate bonds	2,988.3	2.776.5	-211.8	-7.1
Shares	895.9	654.0	-241.9	-27.0

Figure 31. Monetary aggregates

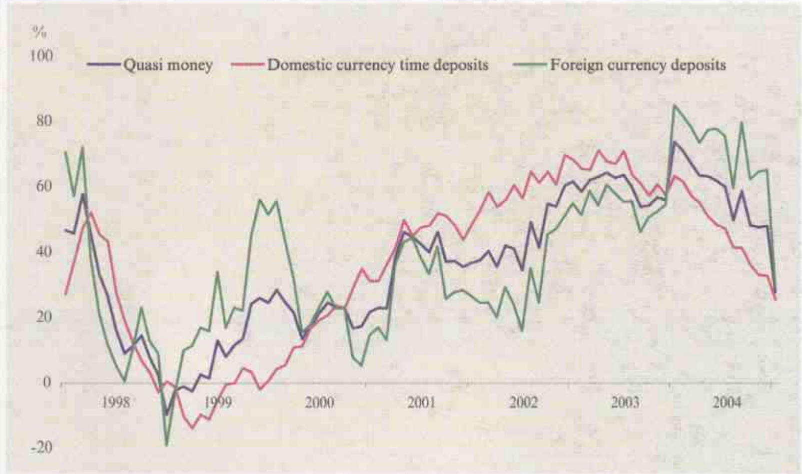


Figure 32. TOP-75 Index

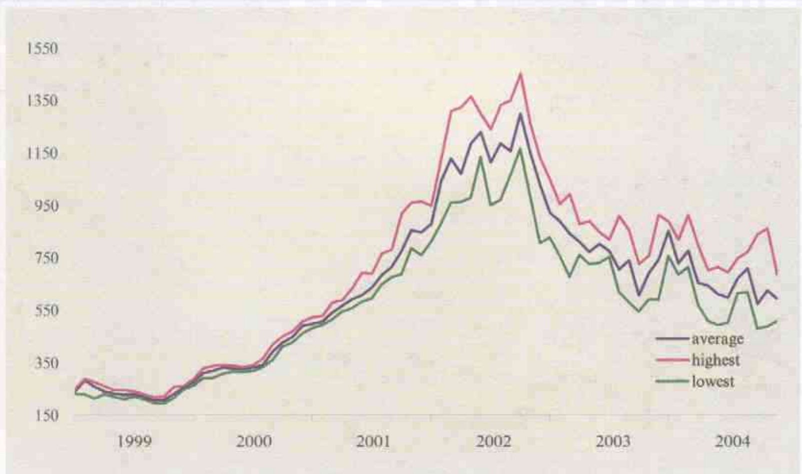
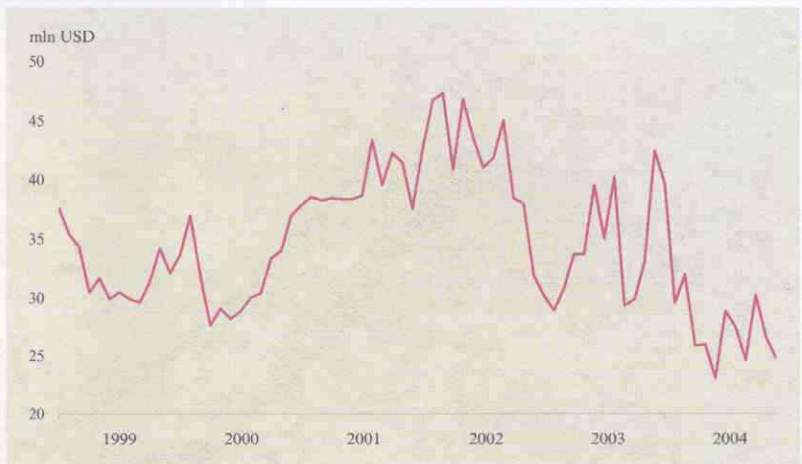


Figure 33. Market capitalization



Committee explained this paradox as being a result of the deregistration of 791.9 million shares in four companies.

Stock exchange

In 2004, the Mongolian Stock Exchange held 255 overlapping sales totalling 9.1 million shares in 247 companies, 130.0 thousand government treasury bills and 69.2 bonds issued by companies. The total value of trade in the year reached to MNT 15.9 billion. Trade in government bonds accounted for 85.7 percent of the total value of transactions, while trade in corporate bonds was worth 10.8 percent of the total and remaining 3.5 percent of trade was in shares.

Table 17. Change in security registration

	(as of December 31, 2004)		
	2003	2004	Change
Number of registered companies	402	395	-7
- Partly state owned	68	67	-1
- Private	334	328	-6
Number of registered shares	1 224 637 137	2 014 738 601	790 101 464
- State owned (number of shares)	988 947 572	1 752 809 647	763 862 075
- Other investors' (number of shares)	235 689 565	261 928 954	26 239 389
Newly registered:			
- State owned	12	4	-8
- Number of state owned shares	569 865 749	791 861 685	221 995 936
Excluded from official register:			
Stock companies	13	11	-2
- Number of shares	14 366 932	7 573 917	-6 793 015

Securities exchange

In the reporting year, an average 35.6 thousand shares worth MNT 2.6 million were traded daily. The most popular corporate, by trade volume, were Shivee Ovoo, Darkhan Nekhii, Mongol Savkhi, Erdenet Khivs, Buunii Khudaldaa. Also by trade worth were Shivee Ovoo, Ulaanbaatar Khivs, Darkhan Nekhii, Telecom Mongolia, and Erdenet Khivs.

The Top 20 index averaged 585.69 points in 2004, down 310.21 points or 34.6 percent from the previous year. The fall was mainly due to a fall in share price of Juulchin, Bayangol Hotel, Telecom Mongolia, Spirt Bal Buram and Atar Orgoo.

Bond exchange

According to Great Khural resolution and Government resolution, Mongolian Stock Exchange registered 130.0 thousand shares or MNT 13.0 billion discounted bond of Government. In 2004, there were 3 rounds of trade in Government bonds, at which 130.0 thousand bonds were traded at a total value of MNT 12.5 billion. In this trade, banks such as Agricultural, Trade & Development, Saving, Golomt, Anod, Mongol Post attended. An additional

MNT 0.5 billion over the nominal level was reduced from the sale of Government discounted bonds.

In reporting year, 69.2 thousand corporate bonds were sold in 48 sessions to a total value of MNT 2.8 billion. MCS bond was 53.2 percent of total bonds worth, while «Ikh Barilga tosol» bond was 18.0 percent, «Shine Zuun» bond was 12.4 percent, «Anod» bond was 2.2 percent, and «Puma» bond was 1.2 percent respectively.

In 2004, totally 380.0 thousand five companies such as «Barilga construction», «Anod bank», «Ikh Barilga tosol», «MCS electronic», «Puma groups» bonds worth MNT 5.8 billion were registered.

Unfortunately, Mongolian stock market's sleepiness did not improve within 2004. There were some factors such as, the first privatized companies' poverties generally centralized in the owner's hands, so the stock exchange is circulating in limited sphere. Even there were some improvements with the bond market, in reality, it did not improved a lot during 2004, because the expectation for togrog depreciation was very high, real interest of commercial banks was high, business entity financial statement was not reported properly and tax evasion was still remaining. Unsettled claims and debt of previous years for the stock exchange had a negative effect on the activation of stock market.

More financial resource will be required with further development of the market economy, as additional investment, replacement of the outdated technology, and increase in the quality and range of products and services are needed in domestic entities. Bank loans, local and foreign investment will comprise part of these resources and domestic companies will increasingly turn into markets as a source funding. Private transfers from workers abroad, gradually increasing domestic savings and foreign investment is providing a basis for development of a stock market.

Table 18. Corporate bond trade information

Bonds	Volume of trade	As a share of total
Shine zuun	344,500.0	12.4
Niislel orgoo		
Ikh barilga		
Ikh barilga project	500,000.0	18.0
MCS	1,477,640.0	53.2
Puma	34,290.0	1.2
Anod	59,730.0	2.2
Secondary market	360,298.5	13.0
Total	2,776,458.5	100.0

4 BANK AND FINANCIAL SECTOR DEVELOPMENT

As of the end of 2004, 17 banks, 114 non-bank financial institutions (henceforth referred as NBFIs) have provided banking services to their customers through 684 offices, including 89 branches, 578 payment and settlement centers and 13 savings and cash units.

4.1. Banking Sector

At the end of 2004, 1 bank remained state-owned, 2 had state participation and 14 were privately owned (of which 4 was foreign invested bank). As of the end of 2002, state-owned and state-participated banks held almost 28 percent of all household savings and time deposits and 10 percent of current accounts, however at the end of 2004, savings and time deposits 9.5 percent, current account 8.9 percent account for respectively. Research on state owned and foreign bank is in the box.

In comparison with the last year, in 2004 despite the higher inflation rate caused by increase in petrol and diesel fuel prices, gold, copper prices increased in the world market and good weather conditions have resulted in increase in GDP to 10.6 percent. Of this increase in GDP, 4.5 percent is by agriculture sector, 4.2 percent by industrial sector, and 2.0 percent by service sector. Developments in the banking and financial sector have influenced these figures. In the last 4 years total assets of the banking sector is increased by 4.8 times and the equity by 6.3 times.

The 'State Monetary Policy Guidelines', approved during the banking system crisis were focused on ensuring the stability of the financial sector and deepening the bank restructuring process rather than promoting competition. As a result of these actions the banking sector has been stabilizing and improvements in profitability of the financial sector increased its ability to withstand different types of risks.

Box 4. Position of banks with foreign and government participation in the banking system

After the transfer of government owned shares to private ownership during the past 4 years, to enhance the efficiency of the banking system, encourage competition and introduce advanced banking services, currently, private ownership dominates the banking system of Mongolia. During last period, foreign participation increased through investment in the banking system. These have laid a fresh ground on which the quality of banking services could be improved, new banking services added and competition intensified.

On 30th of September, 2000, 12 commercial banks were operating in Mongolia, of which 2 were state-owned , 4 had state participation and 6 were privately owned. No banks had foreign participation . (Table 1.) At the time, 78.6 percent of all assets, 62.8 percent of total loans, 73.9 percent of all savings in the commercial banks belonged to state-owned banks and banks with state participation.

Table 1. As of the 30th of June, 2000:

Bank	Ownership structure
Savings Bank	state-owned
Agricultural Bank	state-owned
Trade and Development Bank (TDB)	have state participation (70.0 %)
Mongol Post Bank	have state participation (4.8 %)
Ulaanbaatar City Bank	have state participation (50.0 %)
Innovation Bank	have state participation (17.7 %)

As of the 30th of June, 2004, 17 commercial banks were operating in Mongolia, out of which 2 were banks with state participation (further denoted BWSP), 1 was state-owned, and 14 were private banks, including 4 private banks with foreign participation (BWFP). (Table 2.)

Table 2. As of the 30th of June, 2004:

Bank	Ownership structure
Savings Bank	state-owned
Capital Bank	have state participation (8.8 %)
Ulaanbaatar City Bank	have state participation (20.0 %)
Menatep Bank	private, with foreign participation (100 %)
KHAAN Bank	private, with foreign participation (60.0 %)
Trade and Development Bank (TDB)	private, with foreign participation (76.0 %)
Chinggiskhaan Bank	private, with foreign participation (100 %)

In four years since the first half of 2000, total assets in the commercial banks increased 4.8 times, total domestic credits 9.3, demand, savings and time deposits 6.0, capital 6.5 and paid-in-capital 8.2 times respectively, which points to the impressive expansion the banking system during these four years. While banks with foreign participation did not exist as of the 30th of June, 2000, currently, banks with foreign participation constitute about 40 percent of the commercial banking system.

We observed that the scope of activities differ in the BWFP: TDB and KHAAN bank's individual share of assets in the total assets of the BWFP are relatively large compared to other two banks; Menatep and Chinggiskhaan banks do not carry deposit services; and Chinggiskhaan bank's capital and paid-in-capital alone has notably big share in the same aggregates of the BWFP, as well as all commercial banks.

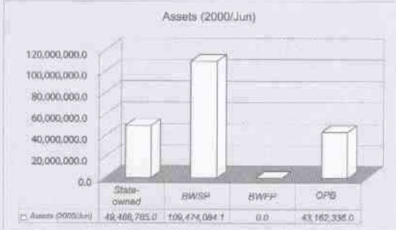
While in the first half of 2000, state-owned banks and the BWSP occupied about 70 percent of the commercial banking system, in four years, this position has narrowed down to no more than 10 percent. The remaining space was taken up by the BWFP and other private banks. Result of the study show that commercial banking market has broadened, its activities have relatively stabilized, becoming more efficient and the ratio of non-performing loans have decreased with privatization and foreign participation in the banking system during the last 4 years.

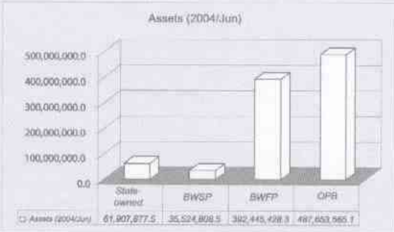
1. Assets

Our inquiry shows that the total of assets in commercial banks increased fivefold, by 775.406 billion togrogs, during the specified 4 years. 37.7 percent of the remarkable expansion is attributed to asset growth of the BWFP and 56.2 percent to asset growth of remaining 10 private banks with no foreign participation (further denoted as OPB, other private banks). Notable increases among these are the 112 billion togrog growth of KHAAN bank, a BWFP, which was privatized in 2002, 90 billion togrog growth of TDB, a BWFP, privatized in 2003, and 74 billion togrog growth of the Chinggiskhaan bank, former non-bank financial institution. Sum of the 3 asset increases above constitutes 35.6 percent of the total asset expansion in commercial banks.

On that account, on 30th of June, 2004, assets of BWFP equaled 40.15 percent of all assets in the commercial banks. By this time, share of total assets of BWSP in commercial bank assets fell to 3.6 from 54.2 percent. Meanwhile, contraction in the share of assets of the Savings bank to the total assets, from 20.5 to 6.3 percent, contributed to the fall in share of assets of state-owned banks, from 24.5 to 6.3 percent. (Graph 1.)

Graph 1. Asset growth (by ownership structure)





2. Domestic credits

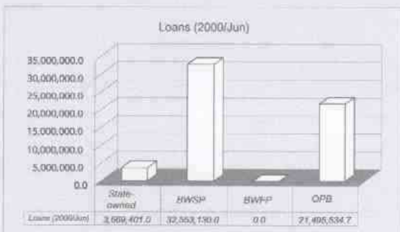
During the 4 years, loans (loans outstanding) figure showed a 9.2 times increase, from 57.7 billion to 535.8 billion togrogs, which points to the significant growth in financial intermediation activities. This growth is associated with the fact that banking system has been relatively stabilizing since 2000, gradually regaining trust of clients, and interest rates were decreasing, while loan repayment improved substantially. 33.2 percent of the loan increase is attributable to the increase of loans from BWFP, and 60.5 percent is to loan increase from OPB.

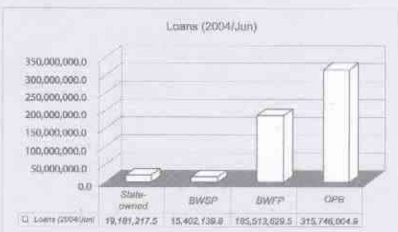
By the end of the first half of 2004, share of BWFP in the total loans stood at 34.6 percent.

On the other hand, share of loans of BWSP in the total loans dropped to 2.9 percent from 56.4 percent, partially due to privatizations of TDB and Mongol Post bank.

We can observe that, in the past 4 years, the Savings bank followed a strategy to increase credits, for their loans increased 47 times in size during the period, while their capital increased only 3 times, assets by 49.7 percent, and deposits by a mere 8.7 percent. Savings bank is currently the only state-owned bank in Mongolia. Thus state-owned banks' share of loans to the total loans of commercial banks stands at 3.6 percent. (Graph 2.)

Graph 2. Outstanding loans (by ownership structure)





If we look at the non-performing loans, the absolute size of non-performing loans in the commercial banks increased from 16.4 billion to 44.3 billion togrogs, however, the relative size to the total loans fell from 28.4 to 8.3 percent. KHAAN bank's share of non-performing loans to their total loans decreased impressively, from 78.3 percent to 3.5 percent, which indicate that their management innovation was successful indeed. Overall, non-performing loan ratio of the BWFP stands at 9.2 percent.

Non-performing loan ratio of the Mongol Post bank, one of the OPB, showed 9.2 percent as of the first half 2004, while it showed 42.0 percent in the first half of 2000, when it was classified as BWSP. During the 4 years, non-performing loan ratio of the BWSP fell from 34.4 to 19.5 percent. If we look closely, non-performing loan ratio of the Capital bank, which was partly privatized during the time, fell from 82.5 to 3.1 percent.

As the Savings bank's non-performing loan ratio decreased by 27.9 points, this ratio stands at 1.3 percent for the state-owned classification.

3. Deposits

In the first half of 2000, deposits in the commercial banks stood at 74.3 billion, those increased 6 times to 445.0 billion togrogs by the first half of 2004. 95.9 percent of this increase is attributable to the deposits growth of private banks, 26.9 percent of which is accomplished by the BWFP, and 69.0 by the OPB.

As of the first half of 2004, share of deposits in the BWFP to the total deposits in the banking system was 26.7 percent. Specifically, share of deposits in the KHAAN bank alone to the total deposits in the commercial banks constitutes 18.16 percent, which is due to the increase from 2.5 billion to 80.8 billion togrogs of deposits in the KHAAN bank.

At the same time, ratio of deposits in the BWSP to the total deposits dropped from 26.2 to 2.9 percent.

During the 4 years, absolute size of deposits in the Savings bank increased by 2.9 billion, or 8.7 percent, however, their relative size to the total deposits in commercial banks decreased from 44.5 to 8.1 percent. Thus, as of the first half of 2004, share of deposits in the state-owned banks to the total deposits in commercial banks decreased from 47.8 to 8.1 percent.

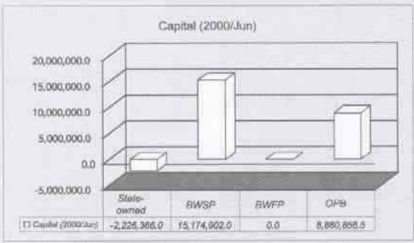
4. Capital

Total of the capital accounts of commercial banks showed a balance of 21.8 billion togrogs in the first half of 2000, and rose 6.5 times, to 141.0 billion togrogs by the first half of 2004. 51.0 percent of this growth is attributed to the capital growth of BWFP.

Notably, capital of the Chinggiskhaan bank alone constitutes 27.2 percent, or a quarter, of the total capital of commercial banks. In addition, KHAAN bank's capital increased from -3.8 billion to 9.3 billion togrogs. Consequently, capitals of the BWFP currently make up 48.9 percent of the total capital of commercial banks.

As TDB, which had 55.1 percent of all capitals of the commercial banks in the first half of 2000, was privatized, share of capitals of BWSP fell from 69.6 to 6.4 percent. During the same time, share of capitals in the state-owned banks to the total capital decreased by 5.1 points to reach 3.4 percent. (Graph 3.)

Graph 3. Capital (by ownership structure)



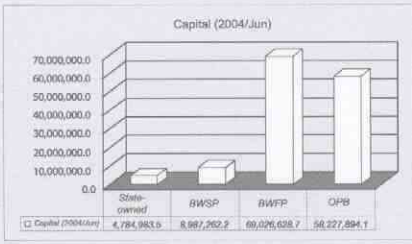


Table 19. Banks' branches and units

		2004	2003	2002	2004 / 2003	2004 / 2002
1	KHAAN	390	374	351	16	39
2	Trade and development	15	18	18	-3	-3
3	Savings	45	40	41	5	4
4	Golomt	16	11	12	5	4
5	Post	83	73	71	10	12
6	Erel	3	4	4	-1	-1
7	Ulaanbaatar city	10	16	18	-6	-8
8	Capital	10	9	6	1	4
9	Transport and development	5	3	3	2	2
10	Credit	8	8	5	0	3
11	Zoos	27	17	10	10	17
12	Anod	23	18	10	5	13
13	Inter	2	4	3	-2	-1
14	Capitron	11	6	3	5	8
15	XAS	34	32	27	2	7
16	Menatep	1	1	1	0	0
17	Chinggis khaan	1	1	0	0	1
	Total	684	635	583	49	101

Growth of banking sector assets in 2004 was high and the main indicator measuring the level of financial intermediation, the ratio of Broad Money (M2) to GDP, increased by 8.6 percent (from its 2002 level) and decreased by 4.8 (from its 2003 level) to 46.8 percent. This decrease is related to sudden increase in GDP in 2004.

During 2004, banking sector assets escalated by MNT 249.9 billion (30.3 percent) to 1075.8 billion. For the first time it overstepped the trillion mark-up. This represents 59.5 percent of nominal GDP. Asset growth was driven by a rapid increase in saving accounts and time deposits MNT 156.2 billion (42.5 percent) (of which 149.2 was household savings), equity MNT 56.6 billion (51.0 percent), funds attracted from foreign banks and capital accounts MNT 45.0 billion (69.7 percent) respectively.

Table 20. Main ratios of the banking sector

		1996	1997	1998	1999	2000	2001	2002	2003	2004
1	M2/GDP	19.9	20.4	20.5	23.8	25.4	29.7	37.9	51.6	46.8
2	Loan/GDP	10.0	6.1	10.5	8.4	6.6	12.1	18.7	32.5	33.5
4	Capital/GDP	-2.1	2.0	0.9	2.2	3.1	4.2	5.0	8.1	9.3
6	Total assets/GDP	21.3	23.6	22.0	22.9	23.1	29.4	39.7	60.6	59.5
7	Currency outside banks/GDP	6.5	6.0	6.9	10.0	10.3	9.7	9.8	9.7	7.9
8	Deposit/GDP	13.4	14.4	13.6	14.4	15.5	19.9	28.2	42.0	37.5

Box 5. Whether the special incentives offered by the banks affect the volume of time deposits?

The purpose of this paper is to investigate which factors do affect individuals' choice of depositing their money, especially to determine whether the special incentives offered by the banks cause a substantial increase in the volume of time deposits in recent years.

The paper consists of 3 sections. In section 1, we will introduce Mongolian deposit market and its trend briefly. The next section is the core of the paper, in which we will make empirical study for identifying possible factors affecting time deposits. Finally, in the last section, we will conclude our empirical study.

Trend of time deposit market of Mongolia

In recent years, volume of savings has been growing fast. Particularly, time deposit to GDP ratio averaging 7.9 percent within the period of 1992-1999 began to increase from 2000 and reached 26.7 percent by 2003. In 2004 the speed of its growth declined and attained 28.6[11] percent /Graph 1/. This increase is explained by regaining of individuals' confidence in the banks after overcoming from the banking crisis; banking activity has become healthier and active, and inflation has stabilised. The relative slow down in the growth of savings to GDP ratio in 2004 can be explained by a high growth rate of real GDP, which accounted for 10.6[12] percent and by high inflation rate of 11.0[13] percent . The ratio accomplished 28.6 percent by the end of 2004 indicates the tendency to converge to the average ratio of other emerging markets and developing countries[14].

The absolute amount of savings grew by 36.3 and 45.2 percent in 2000 and 2001 respectively whereas in 2002, 2003, and 2004 the growth was 62.2, 66.5 and 42.1 percent respectively. If we take savings by each category during 2000 to 2004 (Graph 2), the share of togrog deposits in total was 66 percent in average during 2000-2003. However in 2004 it decreased to 58 percent since togrog deposit increased by only 25.2 percent against 75% growth of foreign currency denominated deposits. Such a rapid growth of the foreign currency denominated deposits was caused by a higher inflation rate and exchange rate instability throughout 2004.

Although loan rate has been decreasing in recent years, deposit rate has not been falling. This indicates banks are not willing to decrease refinancing sources. When there is a high competition in mobilizing funds, deposit rate would not decline and banks will compete by their rates. We can see from Graph 3 the difference in deposit rates of different banks is getting smaller. In order to increase their funding source, banks are offering not only higher deposit rates but also introducing new financial products to the market and offering many kinds of incentives.

Empirical study for identifying possible factors affecting time deposits

For the estimation we have created panel data changing over both spatial and temporal dimensions. Also, as mentioned above, factors affecting only volume of time deposits are taken into consideration, because banks offer incentives with regard to only time deposits and time deposit is more sensitive to any changes in interest rates. Moreover, we will estimate influence of incentives and other possible factors on only togrog time deposits. The reason why we don't exercise foreign currency denominated time deposit is, firstly, its share in total volume[15] is comparatively small and secondly, it is strongly affected by exchange rate movement such that it could reject other determinants' effects.

Before we make our estimation, let's presume the following hypothesis:

4.0. An increase in individual's income has a positive effect on deposit rise.

5.0. An increase in deposit rate might lead to a higher marginal propensity to save, thus rate and volume of togrog deposits are positively correlated.

[11] Projected value of GDP was used. NSO
[12] The real GDP growth was 4.0 percent in 2002, 5.5 percent in 2003 and 10.6 percent as expected in 2004
[13] Inflation rate was 1.6 percent in 2002, 4.7 percent in 2003 and 11.0 percent in 2004.
[14] The average ratio of savings to GDP of other emerging markets and developing countries (146 countries except advanced economies) increased from 24.6 to 29.9 percent between 1998 and 2003.
[15] During 2000-2004, togrog time deposit takes 52 percent of total deposits while foreign currency deposit takes only 24 percent.

6.0. Inflation and deposits are negatively related, because inflation reduces real value of deposits.
7.0. Depreciation of togrog value will negatively correlate with deposit volume, since togrog denominated deposits will be less profitable than that denominated in foreign currency, when exchange rate depreciates.
8.0. Various special promotions offered by banks will stimulate individual's interest to save their money in the bank. Therefore it has a positive effect on deposit volume.

On the basis of the above assumptions there can be 5 explanatory variables, but due to restrictions of data availability and other reasons, it is impossible to take all of them for the estimation. In particular, individuals' income, one of the strongest factors affecting deposits, can not be used as monthly data of GDP per capita is not available.

For the next step, let's build our model by taking monthly balances of togrog time deposits as the dependent variable and the followings as explanatory variables:

- rates of togrog time deposits,
- dummy variable of promotions[16],
- monthly consumer price index (CPI),
- dollar exchange rate versus togrog.

For the estimation, we have collected 338 monthly data of togrog time deposits, their rates and promotions offered by 13[17] of 17 banks, who is operating in Mongolian banking sector, plus CPI and dollar exchange rates over the period from October, 2002 to December, 2004.

Before we estimate our equation, let's observe econometric properties of the data. Once we mentioned earlier we will estimate panel data consisting both time series and cross sections. One of the preconditions to estimate time series by ordinary least square (OLS) method is that data must be stationary. If we examine our data stationarity by Unit Root test, then variables are not stationary except CPI and exchange rate. Therefore, it is more convenient to use rate of monthly changes of those variables rather than their absolute value for our OLS estimation.

Furthermore, it is also important to test whether there is a correlation between explanatory variables. And the result shows that there is a high correlation between CPI and exchange rate, as we assumed. This means multicollinearity problem exists in the estimation. Consequently, we will use only one of those two variables. But which variable? Study by Boldbaatar.D, Urgamalsuvd.N, and Batsaikhan.N /2003/ proves bank deposit does depend on exchange rate, on the basis of SUR model estimation. Hence we will choose exchange rate data.

So let's estimate the above equation using OLS method. In our equation:
g_{it} is deferential of natural logarithm of deposits $git=s_{it}-s_{it-1}$
s_{it} is natural logarithm of i banks'deposit in t period,
r_{it} is deposit rate
ex_{iT} is natural logarithm of dollar exchange rate,
dum_{it} is promotions dummy variable,
e_{it} is error term of equation and it distributed normally with zero mean and δ^2 variation.

$$g_{it} = c + b_1(r_{it} - r_{it-1}) + b_2 ex_{it} + b_3 dum_{it} + e_{it} \qquad (1):$$

we have the following results from the equation

$$g_{it} = c + b_1(r_{it} - r_{it-1}) + b_2 ex_{it} + b_3 dum_{it} + e_{it} \qquad (2):$$

t= (1.25) (0.08) (-1.25) (0.66)

n=338 R^2=0.01 DW=1.89

[16] Promotion dummies take the value of zero if there is no incentive offered by a bank in that month, one if there is an incentive.
[17] Menatep and Chingis haan banks are not allowed to take deposits. Capitron bank has refused to provide data, and Capital bank has not given data until 2004.

We can say the above estimation is statistically insignificant. The reasons are, we believe, error assumptions do not work because of correlation of error terms, which may caused by banks' differences in their activities, in by-laws or all banks do their business in the same sector or may be exclusion of variable «income», which could be a strongest explanatory variable from the equation. Therefore, solution to fix the problems is to use Fixed or Random Effect method for our panel.

Furthermore, when we use those methods, there can be heteroskedasticity problem and contemporaneous correlations due to that all banks operate in one sector or one bank's movement affect others. Thus, in order to fix the above mentioned problems, we assume SUR model is more suitable.

In the next step the outcome of the Random Effect estimation shows statistically unreliability of the equation. So we will estimate cross section SUR model using Fixed Effect method. However, estimation of cross sectional SUR model cannot solve time series problems. It would be possible to study the properties more carefully only when we have enough time series data. Estimation of cross sectional SUR model using Fixed Effect method does not require stationarity so we can use absolute value of the explanatory variables.

The estimation result is:

$$g_{it} = c_i + 0.22r_{it} - 0.40ex_{it} + 0.03dum_{it} \qquad (3)$$

t-stat (3.60) (7.14) (-4.14) (4.23)

n=338 DW=2.07

In the panel estimation, R-squared and Adjusted R-squared are not important. From equation (3), we can see that if deposit rate increases by 1 percent, deposit growth will increase by 0.22 percent, if dollar exchange rate depreciates by 1 percent, deposit growth will fall by 0.40 percent and finally if a bank offers special promotions, it could grow by 0.03 percent. The signs of the coefficients are as expected exactly.

Conclusion

Our estimation provides evidence that special promotions offered by banks do affect the volume of togrog time deposits in common with deposit rates and exchange rates. Banks can increase the size of their refinancing sources by rising deposit rates and offering various special incentives and promotions. A change in macro variable, say exchange rate depreciation may lead to a decrease in togrog deposits, but on the other hand deposits denominated in foreign currency could be emerged in that case.

Thus banks have an opportunity to mobilize funds less costly by making various promotions rather than by offering higher deposit rates, which is more costly.

Costless fund raisings will give possibility to increase loan size for banks, which could lead to a lower level of loan rates because of banks' greater profits. The lower level of loan rates will give an opportunity for borrowers to decrease their investment costs, as a result of which capacity of the real sector will be enhanced. For banks, decreasing level of interest rate pressure born by borrowers will improve repayments. Better repayment means lesser share of non-performing loans in total loan portfolio.

In the future, when we have enough and extended time series, we can improve our estimation for considering time series properties more carefully.

Figure 34. Money supply, currency outside banks (percentage of GDP)

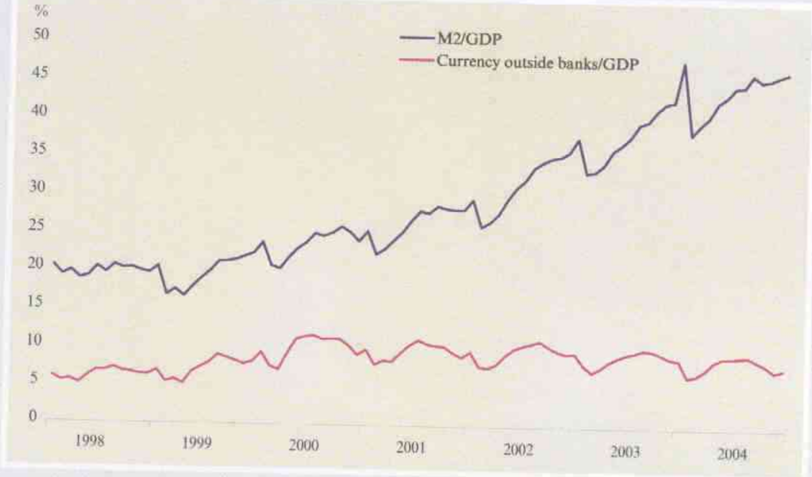
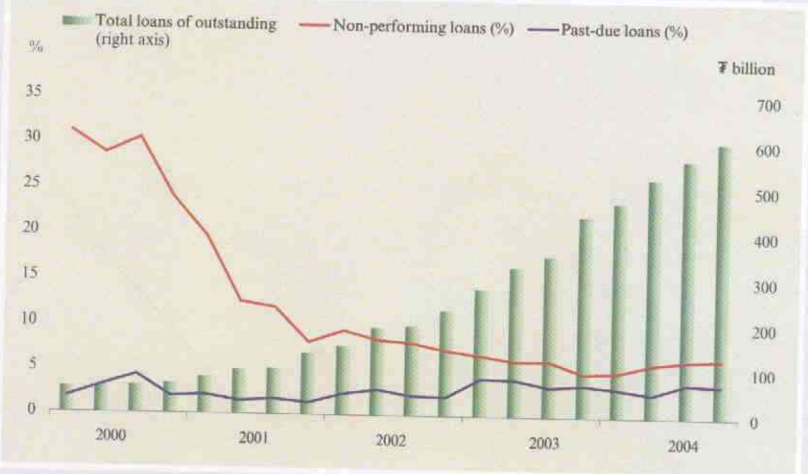


Figure 35. Non-performing loans



Total banking sector assets were structured as follows: net outstanding loans made up 56.8 percent, domestic and foreign bank deposits 13.7 percent, cash and deposit placed at Bank of Mongolia 11.1 percent. Compared to figures from the previous year, the share of loans increased by 5.4 points and share of other assets were more or less stayed the same.

In 2004, total bank liabilities increased by 27.0 percent, or MNT 193.3 billion, caused by an increase in savings and time deposits of MNT 156.2 billion and funds attracted from foreign banks of MNT 45.0 billion. As for the structure of banking sector liabilities, during the last year share of current accounts and other liabilities decreased and other types of liabilities increased. As a result total liabilities were structured as: savings and time deposits 57.7 percent, current accounts 23.3 percent, funds attracted from domestic banks 12.1 percent, funds attracted from others 4.5 and other liabilities 2.5 percent. Current account liabilities decreased

Table 21. Loan report of the banking sector (in billions of togrog)

	Beginning of year	Loan issuance	Loan payment	2004.12.31 Outstanding
Total loan	441.8	999.6	817.8	606.1
Manufacturing	189.6	331.3	246.3	262.7
Agriculture, hunting, forestry and fishing	23.4	31.3	23.8	28.1
Electricity, gas and water supply	8.6	20.6	15.0	15.1
Construction	31.1	80.4	60.5	52.6
Mining and quarrying	37.4	69.7	58.6	52.0
Processing	89.1	129.3	88.4	114.9
Non-manufacturing	252.2	668.3	571.5	343.4
Whole and retail trade, repair of household goods	153.8	409.5	356.3	214.9
Tourism, hotel and restaurants	7.8	13.0	6.6	12.3
Transport, storage and communication	13.3	23.2	23.4	16.7
Real estate, renting and business activities	7.3	16.4	9.0	15.4
Health and education	2.0	6.6	3.3	6.0
Financial intermediation	4.4	15.9	10.9	5.2
Others	63.5	183.8	162.0	72.9

due to changes in Government funding which converted into a one uniform government account, and because this some of the fund was deposited into Bank of Mongolia account.

According to the consolidated balance sheet of the banks, major bulk of funds attracted through demand, savings and time deposits were spent for lending activities and this tendency matches the previous year. There is, however, a change in lending activity, which can be attributed to the segmenting of borrowers and the creation of new types and forms of loans suitable for them. In addition, the introduction of new services and financial products not

Table 22. Changes in loan, deposits and currency outside banks

(in billions of togrog)

		1997	1998	1999	2000	2001	2002	2003	2004
1	Total loan outstanding	50.4	85.6	77.5	66.8	135.1	231.4	442.1	606.8
	Change*	-22.3	70.0	-9.5	-13.9	102.3	71.4	91.0	37.2
2	Non-performing loans	9.9	26.6	39.2	14.6	9.1	11.7	21.2	39.1
	Change*	-69.9	168.5	47.4	-62.7	-38.0	29.5	80.1	85.0
3	Past-due loan	4.6	6.1	2.9	1.3	1.8	4.8	15.5	21.6
	Change*	-86.2	32.9	-51.7	-56.2	40.3	168.0	222.6	39.0
4	Deposits	58.5	59.3	70.0	92.7	134.6	218.4	363.5	516.5
	Change*	27.3	1.4	18.0	32.5	45.2	62.2	66.5	42.1
5	Currency outside banks	49.8	56.4	87.3	100.9	109.2	120.8	131.5	143.5
	Change*	19.3	13.4	54.6	15.6	8.2	10.6	8.9	9.1

* in percentages

Box 6. Branches of the banks in rural areas

As the end of the 2004, 17 banks operated in the banking system. Of which, the banks except Inter bank, Transport and Development bank, Chingis Khaan bank, Menatep SP bank, and Ulaanbaatar city bank have been operating in rural areas through 500 branches with 2808 employees. The Agricultural bank has 354 branches in rural, the Mongol Post bank 69, the XAC bank 26, and the Zoos bank 15. These were more than others did.

The number of the branches grew by 7 compared to the 3rd quarter of 2004. If we consider bank by bank, the number of the branches of Mongol Post bank and Agricultural bank each increased by 2, XAC bank by 3, and Zoos and Capitron banks each by 1. However, Ulaanbaatar city bank dismantled a branch in province. There are no chages for other banks.

Mongol post and XAC banks have branches in the all aimags, Agricultural bank in 20 aimags, Zoos bank in 11 aimags, and Savings bank in 7 aimags while other banks have been operating through their branches which is located in large aimags with population density such as Darkhan-Uul, Orkhon, and Selenge. For instance, the branches of 10 banks have been operating in Darkhan-Uul and Orkhon aimag, and 6 banks in Selenge aimag. In Darkhan-Uul aimag 10 banks' 42 branches have been operating. Of which, Agricultural bank has 25 branches, Zoos and Mongol Post bank each 3, Capitron, Savings, and Trade and Development bank each 2, others each 1.

(in million togrogs)

	Banks	Current account			Deposit			Outstanding loans		
		Percentage share*	Amount	Change	Percentage share*	Amount	Change	Percentage share*	Amount	Change
1	KHAAN	5.23	15,078,979	1,706,380.68	57.4	40,436,796	5,899,374.54	52.4	56,636,873	3,176,523.90
2	TDB		5,164,348	-459,366.30	3.83	2,698,656	993,007.70	6.18	6,678,814	345,331.80
3	Savings	3.07	920,904	-323,942.03	4.89	3,449,049	286,299.57	3.6	3,884,906	226,088.48
4	Golomt	2.94	881,349	-170,934.00	2.46	1,733,613	236,523.40	1.18	1,270,001	-23,063.50
5	Mongol Post		3,298,606	797,069.62	11.9	8,419,947	402,196.39	8.26	8,918,899	-222,195.57
6	Erel	0.03	9,240	-265,742.00	0.13	93,732	-10,461.30	0.53	570,727	-78,325.00
7	UB city	0	0	0	0	0	0	0	0	0
8	Capital	0.35	104,150	39,626.90	0.51	357,804	2,140.80	1.06	1,150,408	260,307.00
9	Trans&Dev	0	0	0	0	0	0	0	0	0
10	Credit	0.59	175,725	67,900.00	0.08	56,348	2,612.80	0.45	480,927	18,378.50
11	Zoos	8.19	2,460,024	558,466.37	7.96	5,615,180	352,442.82	8.67	9,371,044	853,503.01
12	Anod	1.42	425,557	-263,282.00	4.23	2,984,718	37,438.70	4.9	5,296,246	-92,305.00
13	Inter	0	0	0	0	0	0	0	0	0
14	Capitron	1.06	318,111	94,904.00	0.2	144,482	54,829.60	0.57	613,811	216,233.80
15	XAC	3.95	1,185,151	564,286.82	6.41	4,518,115	626,364.26	12.2	13,154,207	1,550,346.45
16	Menatep SP	0	0	0	0	0	0	0	0	0
17	Chinggis Khaan	0	0	0	0	0	0	0	0	0
	Total		30,022,144	2,343,311.13		70,508,440	8,882,769.28		108,026,863	6,230,823.87

Comment: * percentage share to total amount of the branches of certain bank in rural area

As the end of the 2004, banks' branches in rural area issued 108 billion togrogs loan. Almost 52 percent of total loans was issued by Agricultural bank, 12 percent by XAC bank, 9 percent by Zoos bank, 8 percent by Mongol Post bank, 6 percent by Trade and Development bank, 5 percent by Anod bank, 4 percent by Savings bank, and 1 percent by Capital, Golomt, Capitron, and Credit banks, respectively.

To show main indicators, shares, amounts of branches of the banks in province as the end of the 2004, compared to the previous quarter.

As shown in above table, Agricultural bank has concentrated their activities toward rural area. Also, XAC, Mongol Post, Zoos, and Savings banks operated actively in rural area compared to the others.

Although the current accounts, deposits, and loans outstanding of the banks in rural area weighted little share in the banking sector, the banks gained 75 percent of total profits of the banking sector from activities of the branches in rural area. The Agricultural bank operated most profitably. The current accounts of the banks, which have branches in rural area such as Trade and Development, Savings, Golomt, Erel, and Anod banks decreased compared to the previous quarter while other banks' increased. However, the current account of the banking sector in rural area grew by 2.3 billion togrogs of which, 73.9 percent were growth of Agricultural bank and 21 percent of XAC bank.

Deposit increased by 8.8 billion togrogs, and 65.9 percent of this growth were regarded to Agricultural bank, 10.2 percent to Zoos bank, 6.8 percent to XAC bank, and 4.5 percent to Mongol Post bank. However, deposit of Erel bank went down. The outstanding loans increased by 6.2 billion togrogs to 108 billion togrogs while non-performing loans decreased by 1.5 billion togrogs to 2.3 billion togrogs. The outstanding loans of Agricultural bank went up by 3.1 billion togrogs and this was 49.1 percent of total loans' growth. The share of non-performing loan in total loan decreased from 4 percent to 2 percent. This indicator of Golomt bank was 10 percent, Zoos bank 5.1 percent, and Trade and Development bank 4.0 percent. These were higher than other banks did. Interest rate revenue was 84 percent of total revenues of the branches in rural area while interest rate cost was 33.6 percent of total costs.

During the crisis of banks in 1996 and 1998, the banks operated only for granting pension and allowances and making payments of the budget organizations. Thus they operated at losses and some banks dismantled their branches in rural area. As a result, an extent of the banking services decreased and services to provide other financial needs decreased in rural area. Also, a confidence of the costumers to banks weakened considerably. However, in the past years the improvement in liquidity of the banks leads to active operations of the banks in rural area.

Table 23. Banks' income and expense												(mln togrog)
	2001		2002		2003		2004		2004/2003		2004/2002	
	Amount	Share*	Amount	Share*	Amount	Share*	Amount	Share*	Amount	Change**	Amount	Change**
Total income	52.1	100.0	84.6	100.0	134.0	100.0	162.2	100.0	28.2	21.0	77.6	91.7
Interest	35.0	67.1	57.9	68.4	95.8	71.5	134.1	82.7	38.3	40.0	76.2	131.6
Trading	5.1	9.8	12.3	14.5	4.3	3.2	8.3	5.1	4.0	93.4	-4.0	-32.4
Exchange revaluation	2.5	4.8	4.1	4.9	19.8	14.8	0.8	0.5	-19.0	-95.7	-3.3	-79.4
Fee	5.2	10.0	7.3	8.6	10.2	7.6	14.0	8.6	3.8	36.8	6.7	91.2
Other	4.3	8.3	3.0	3.5	3.9	2.9	5.0	3.1	1.1	27.5	2.0	65.8
Total expense	36.1	69.2	66.7	78.9	113.4	84.7	138.7	100.0	25.3	22.3	72.0	108.0
Interest	13.4	25.7	24.2	28.7	47.7	35.6	65.9	47.5	18.2	38.1	41.7	172.2
Reserves for risk	2.3	4.4	5.9	7.0	10.1	7.5	22.0	15.8	11.9	117.6	16.1	272.5
Trading	3.7	7.1	11.4	13.5	2.3	1.7	2.5	1.8	0.2	7.4	-8.9	-78.3
Exchange revaluation	2.5	4.9	3.8	4.5	18.7	14.0	0.0	0.0	-18.7	-100.0	-3.8	-100.0
Personnel	5.9	11.3	9.5	11.2	14.7	11.0	19.5	14.0	4.8	32.5	10.0	105.0
Depreciation	1.2	2.3	1.9	2.2	3.2	2.4	4.3	3.1	1.1	34.1	2.4	125.9
Other	7.0	13.5	9.9	11.8	16.8	12.5	24.6	17.8	7.8	46.7	14.7	149.0
Net profit before tax	16.0	30.8	17.8	21.1	20.5	15.3	23.4	14.5	2.9	14.3	5.6	31.7
Tax	6.2	11.8	6.8	8.1	6.7	5.0	6.2	4.5	-0.5	-7.8	-0.6	-9.2
Net profit	9.9	18.9	11.0	13.0	13.8	10.3	17.3	10.6	3.5	25.1	6.3	56.9

* share in total income

** change in percentages

only helped banks to earn extra incomes, but also allowed them to attract new customers and therefore, financing.

Compared to previous year results, total income, total expenses and pre-tax earnings grew by 40.7, 46.5, and 14.2 percent respectively. The growth in profitability is less than previous year growth in profits. In 2004, the banking sector has accumulated profits worth of MNT 17.3 billion. Of which are as follows: Trade and Development Bank 31.1 percent, 5.4 billion,

Table 24. Difference in Bank's assets and liabilities									(mln togrogs)
	0	0-30 days	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Assets	273,197	161,993	109,952	150,401	186,020	127,121	45,427	20,757	1,074,867
Liabilities	387,918	68,281	129,982	114,330	135,161	46,304	19,936	14,475	916,388
Difference	-114,720	93,712	-20,031	36,071	50,859	80,816	25,490	6,282	158,479
Difference (accumulated)	-114,720	-21,009	-41,039	-4,968	45,891	126,707	152,197	158,479	
Difference (ac.) Liabilities	-10.70%	-2.00%	-3.80%	-0.50%	4.30%	11.80%	14.10%	14.70%	

Agriculture Bank 17.9 percent, 3.1 billion, Chinggis Khaan 15.5 percent, 2.7 billion, Golomt Bank 10.2 percent, 1.8 billion. Over the last 2 years, lending rates based on systemic average and actual interest incomes have been gradually decreasing. Interest paid on deposits is rarely changed, which indicates the intention of banks to maintain their market share. As a result, return on assets in the banking system declined by 0.6 points to 2.5 percent.

4.2. Non-Bank Financial Institutions

It has become vital to enhance competition to make access to financial services easier for relatively low income customers and small to medium sized enterprises and therefore to encourage the establishment of financial intermediaries other than banks. Relevant policy measures to boost the operations of NBFIs and to establish a pertinent legal framework were included in the Monetary Policy Guidelines, and consequently by the end of 2004, NBFIs mounted to 114, of which 34 were licensed within the last year. The number of NBFIs licensed over the last few years demonstrates enhanced competition, deepened financial intermediation and also the intention of individuals and institutions to conduct banking operations.

In connection with the approval of the law on NBFIs. The Bank of Mongolia has been working towards amending its rules and regulations accordingly and further developments for the current regulation in place.

During 2004, the Governor of Bank of Mongolia approved the licenses of 31 NBFIs and revoked licenses of 3 NBFIs («MGL Credit», Hundred Pound» and «Sanstandard»). As of the end of 2004, the number of functioning NBFIs was 114, 29.5 percent or 26 units more than in 2003 (88 NBFIs).

NBFIs that are complying with the related laws and regulations were specialized in the following financial services: loans 106, foreign currency trading 25, trust service 3, leasing 4, factoring 3, remittance 9, electronic payments 1, financial advice 1. These activities were carried out along with a license and additional permissions.

During the last year, the number of NBFIs operating in rural areas increased by 60.0 percent to 15, which represents 13.2 percent of all functioning NBFIs. Total assets of these NBFIs were MNT 627.7 million which represents 2.2 percent of the total assets of total NBFIs. By area of incorporation, NBFIs are located 5 in Dornod aimag, 3 in Darkhan-Uul Aimag, 2 in Zavkhan aimag, and 1 in each of Tuv, Selenge, Arkhangai, Khuvsgul, Sukhbaatar aimags.

Relevant policy measures to boost the operations of NBFIs and encourage flow of foreign investment into the financial sector were included in the Monetary Policy Guidelines, and consequently foreign invested NBFIs increased in numbers. In 2004 100% foreign owned 5 NBFIs were licensed, the number of 100% foreign owned NBFIs increased to 11. This represents 9.7 percent of the total number of NBFIs, total assets of these NBFIs reached MNT 7.2 billion, and it is 25 percent of total assets of NBFIs 29.3 percent of total equity of NBFIs.

Figure 36. NBFI-s' equity capitals (as a ratio of the whole)

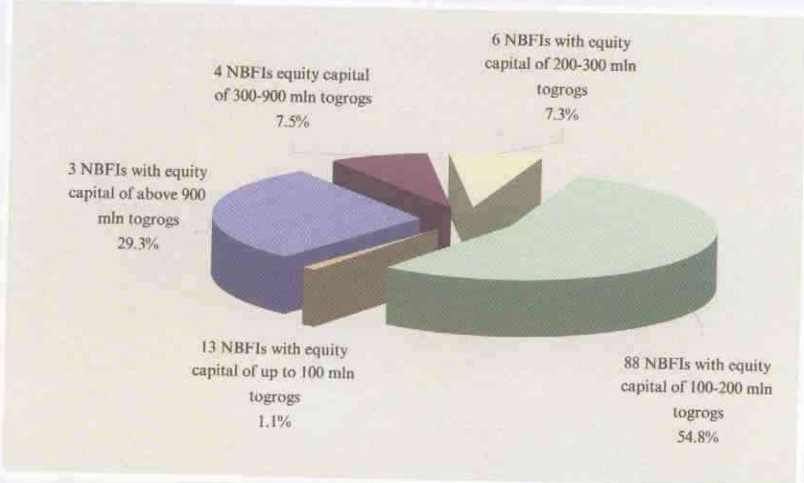


Figure 37. Composition of total income in 2004

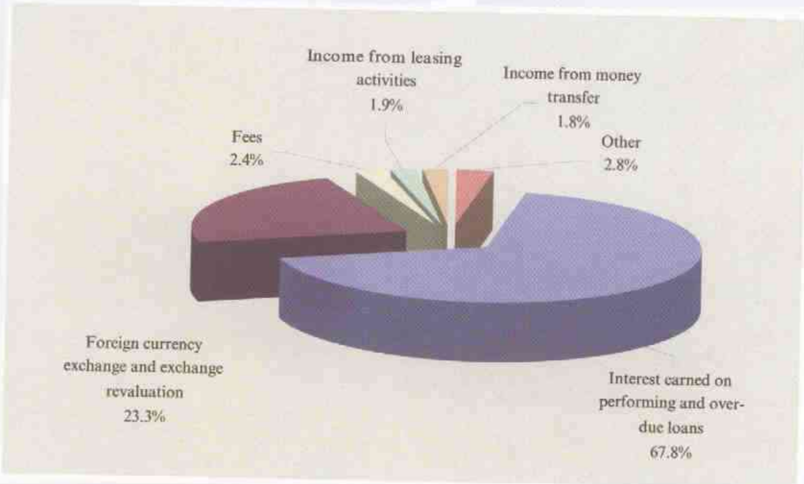


Figure 38. Composition of total expenses

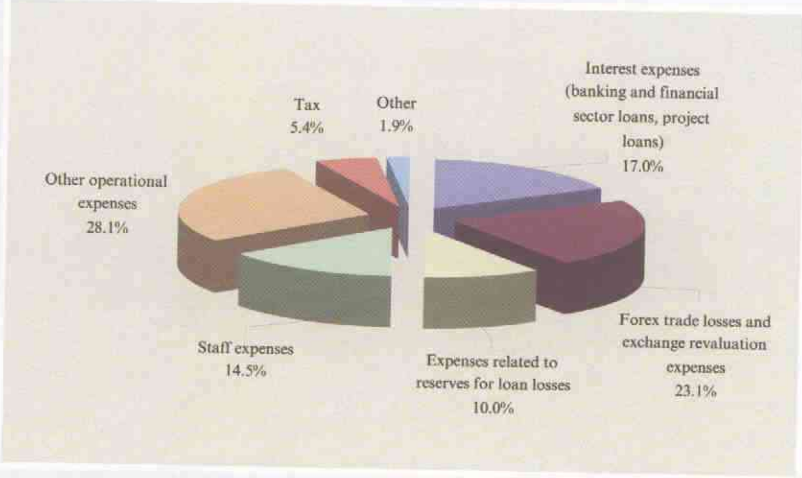


Table 25. Non-bank financial institutions' indicators				(bln togrogs)
	2001	2002*	2003	2004
Loans outstanding	13.2	6.3	11.8	17.6
Total assets	23.4	12.5	18.9	28.7
Total liabilities	3.1	3.9	5.2	7.9
Capital	20.3	8.6	13.7	20.8

* Data for Chinggis khaan NBFI have been excluded in 2002

NBFIs have established new branches and representative offices as a result; total branches and offices in Ulaanbaatar and rural areas have increased to 17.

Within the last year, the number of investors in NBFIs jumped by 298, while the number of employees swelled to 420. Based on 2004 statistics, in cumulative figures 12.1 thousand customers were served by micro-finance services.

From the research, NBFIs loan interest rate margin was 3.0 to 3.5 percent, interests paid upon funds attracted from others 1.5-2.0 percent per month.

As of the end of 2004, NBFIs capital and liabilities are compared with the previous year. In 2004, total income soared by MNT 9.7 billion (51.6 percent) to MNT 28.7 billion. This is due to share of capital of NBFIs escalated by MNT 7.0 billion (51.1 percent), NBFIs funds attracted from others increased by 2.5 times.

Compared to the previous year net attracted funds of NBFIs have been adjusted in 2004. For instance, the growth rate in share of capital is slower than total assets growth rate. Therefore the share of capital as a percentage of total assets declined by 0.2 percent, other liabilities declined by MNT 1.4 billion, however financial resources increased by MNT 4.2 billion resulting in 9.3 percent of total assets.

Around 72.4% of the total funds of NBFIs' can be attributed to equity capital. On one hand, this fact is an indication of compliance of NBFIs with the provisions of the Law on Non-Bank Activities, which states that funding should come from own capital. On the other hand, this indicator shows that other funds attracted from public are maintained at appropriate levels, however, there is a general tendency to increase borrowed funds through lending from banks and other financial institutions, project loans, and trust businesses. Therefore total liabilities is in the way of increasing further. Even though this is supporting financial intermediation, it may result in possible additional risks and consequently financial deterioration might occur. Bearing this in mind there is urgent need for changes to improve the prudential ratios.

Legal framework for trusting services is not in place. Due to this NBFIs are using trusting services in way of attracting funds from others and transferring them into savings. Furthermore services provided by NBFIs have been expanding and the share of capital in total attracted

Table 26. NBFI's loan portfolio quality (mln togrogs)

	2002.12.31*		2003.12.31		2004.12.31	
	Amount	Share in total assets	Amount	Share in total assets	Amount	Share in total assets
Loan (net)	6140.4	49.3	11470.6	60.7	16862.4	58.8
Total loan	6340.1	50.9	11830.6	62.6	17606.6	61.4
Performing loan	5790.1	46.5	10907.3	57.7	11197.0	39.1
Non-performing loan	419.7	3.4	773.0	4.1	970.0	3.4
Past due in arrears	119.6	1.0	282.2	1.5	375.5	1.3
Substandard	102.1	0.8	216.9	1.1	186.2	0.6
Doubtful	170.0	1.4	182.2	1.0	156.1	0.5
Loss	28.0	0.2	91.6	0.5	252.2	0.9
Receivables on financial leasing	130.3	1.0	150.3	0.8	195.3	0.7
Reserves for loan losses	-199.8	-1.6	-360.0	-1.9	-744.2	-2.6

* Data for Chinggis khaan NBFI have been excluded in 2002

funds have been declining this meant that NBFIs have a tendency to reach the minimum share of capital amount set by the Bank of Mongolia.

Changes in asset structure are as follows: As total attracted funds increased interest earning assets increased by MNT 5.4 billion, NBFIs fixed assets increased by MNT 0.5 billion however percentage of equity in assets decreased by 1.9, 0.9 points respectively. Nevertheless the share of other assets and allowances for loan losses in total assets increased by 1.2, 2.6 percent respectively as stipulated in the «Regulation on asset classification and loan loss provisioning». This Regulation was approved in 2004 by joint resolution 459/207 of the Minister of Finance and the Governor of the Bank of Mongolia.

As of 2004, NBFIs' profits after tax reached MNT 1.4 billion, which is 20.2 percent, or MNT 231.2 million, higher than the previous year figure. The increase in the number of NBFIs, accompanied by relatively stable operations, implementation of intensive credit policies in one hand and deepening financial intermediation driven by 2.5 times growth in financial resources, which reached MNT 7.0 billion, in the other hand, caused this improvement in earnings. During the year, 88 NBFIs have made profits which is 77.2 percent of all NBFIs. The profits of those NBFIs are around MNT 0.05-185.9 million. Moreover 19 NBFIs which is 16.7 percent of all NBFIs have made losses.

In 2004, NBFIs' net income reached MNT 6.7 billion, which is 64.1 percent, or MNT 2.6 billion, higher than the previous year figure. This is due to MNT 5.6 billion increase in interest earning assets.

Majority of income of almost all NBFIs are generated from lending activity. Nevertheless share of interest income in total income has declined by 12.4 percent compared to previous year figures while the share of earnings generated from foreign currency trading, money remittance and other activities were increasing.

Table 27. NBFI's assets							(mln togrogs)
№		2002.12.31*		2003.12.31		2004.12.31	
		Amount	Share in total assets	Amount	Share in total assets	Amount	Share in total assets
A	CURRENT ASSETS	11221.7	90.0	17351.3	91.8	26564.4	92.7
1	Cash assets	4122.5	33.1	4531.9	24.0	8184.1	28.6
2	Loan (net)	6140.4	49.3	11470.6	60.7	16862.4	58.8
3	Reserves for loan losses	-199.8	-1.6	-360.0	-1.9	-744.2	-2.6
4	Claims	324.0	2.6	527.8	2.8	362.8	1.3
5	Accrued interest receivable	610.8	4.9	700.3	3.7	369.8	1.3
6	Accrued interest receivable on financial leasing	3.1	0.0	6.8	0.0	15.8	0.1
7	Other assets	20.9	0.2	114.0	0.6	925.4	3.2
Б	NONCURRENT ASSETS	1236.8	9.9	1553.4	8.2	2089.2	7.3
8	Fixed assets (net)	1215.1	9.8	1458.7	7.7	1980.3	6.9
9	Other real estate owned (net)	21.6	0.2	94.7	0.5	116.3	0.4
	TOTAL ASSETS	12458.5	100.0	18904.7	100.0	28653.6	100.0

* Data for Chinggis khaan NBFI have been excluded in 2002

Due to the expansion of activities all expense items soared, causing total expenses to rise to MNT 5.4 billion, which is 81.1 percent or MNT 2.4 billion, higher than in 2003. Causes for rapid increase in expenses can be explained as follows: First, funds attracted from others increased by MNT 4.1 billion, which in turn resulted in additional interest expenses worth of MNT 0.2 billion. Secondly, the expansion of operations and introduction of new services resulted in operational and human resource expenses. Thirdly, losses worth of MNT 1.2 billion were made from foreign currency trade, exchange rate differences. Fourthly, provisioning rates for loans and other similar assets has been increased due to amendments in the regulation on «Asset classification and loan loss provisioning». This Regulation was approved in 2004 by the joint resolution #459/207 of the Minister of Finance and the Governor of the Bank of Mongolia. Provisioning expenses related to loans, receivables and OREO soared to MNT 534.6 million due to higher provisioning required by this new regulation.

Interest expenses are advancing as the consequence of NBFIs' interest in attracting funds through trusting services, increases in lending from banks, financial institutions, and general public, enhanced involvement in project loans. It is important to note that expenses from foreign currency assets and liabilities revaluations, and trading are rapidly increasing. This expenses escalated 4.8 times to MNT 1.2 billion.

5 CENTRAL BANK ACTIVITIES

ORGANIZATION CHART OF THE BANK OF MONGOLIA

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.Enhhuyag

Director of International Department
Ts.Odongua

Director of Internal Audit Department
Ts.Tsolmon

Director of Supervision Department
L.Chimgee

Director of Accounting and Information Technology Department
B.Lkhagvasuren

Director of Legal Division
G.Erdenebayar

Assistant to Governor, Chief Economist
T.Ariuntungalag

Director of Service Division
S. Batjargal

Director of Reserve Management Unit
D.Davaasuren

Director of Research Division
N.Amar

Director of Banknote Division
T.Khaltar

Director of Accounting Division
D.Namjilsuren

Director of Information Technology Division
G. Dashzeveg

Director of Supervision Division
D.Ganbat

Director of Non Bank Financial Institutions Division
Kh.Delger

Director of Banking Division
D.Batmunkh

Director of Policy Regulation Division
J. Ganbaatar

Director of Bank Training Center
D.Turbat

In the period of 2000-2004 the The Bank of Mongolia contributed significantly towards providing a favourable condition for the macro economics and businesses with by means its monetary policy, by strengthening the stability of the monetary and financial market, and by expanding the scope of financial intermediation.

5.1 Monetary Policy

Reserve money

In 2004 the growth rate of reserve money rose by 2.4 percentage points from the previous year and reached 17.0 percent. The share of growth of currency outside the banks in the total growth of reserve money declined by 6.8 percent. As the share of growth of currency outside the banks had been decreasing, the share of bank reserves was growing and it reached 54.0 percent of the total increase of reserve money. Since 1996 the share of currency outside the banks in total reserve money had been consistently declining. This declining tendency remained unchanged and in 2004 it fell down to 61.1 percent or by 4.4 percentage points. It can be seen from the figure that as the scope of financial intermediation is expanding with the following increased bank reserves and slowing growth of currency outside the banks the sharp seasonal fluctuations in reserve money have a tendency to smoothen.

In 2004 the Bank of Mongolia bought MNT 157.2 billion equivalent in gold which is higher than that of the previous year by MNT 25.0 billion or by 18.9 percent. To sterilize this injection during the whole year BOM kept on average MNT 50.3 billion Central bank bills a day, which is by 12.3 percent higher than the average daily outstanding CB Bills in 2003. Because of fluctuations in exchange rate demand for foreign currencies on inter-bank market was relatively high and BOM sold USD 82.6 million in net terms to the banks and accordingly absorbed the equivalent amount in MNT.

In 2004 Bank of Mongolia continued to pay great attention to the improvement of the reserve money programming by stabilizing the sources for information of possible changes. As a result, the efficiency of reserve money management improved and the total money growth reduced by 29.2 percentage points.

Liquidity Management

In 2004 in order to control the performance and the further tendency of the reserve money program BOM conducted a short term liquidity forecast on a daily basis.

When the target for reserve money is set by the program and the management for Net Foreign assets assumed to be optimal the Net domestic assets would be set as the operational target for the Bank of Mongolia. In other words, the reserve money program corresponds to the management of Net domestic asset's items. The optimal management of these items requires the ability to control and forecast its daily balance sheet item by item from the Central Bank.

Bank reserves at the Central bank are crucial for the management of Net domestic assets and short-term forecasting for the Central bank requires information about the liquidity positions of the banks on a daily basis. The amount of issued loans and transactions made on the interbank market within a short period of time are determined by the reserves of the banks and

Figure 39. Reserve money dynamics

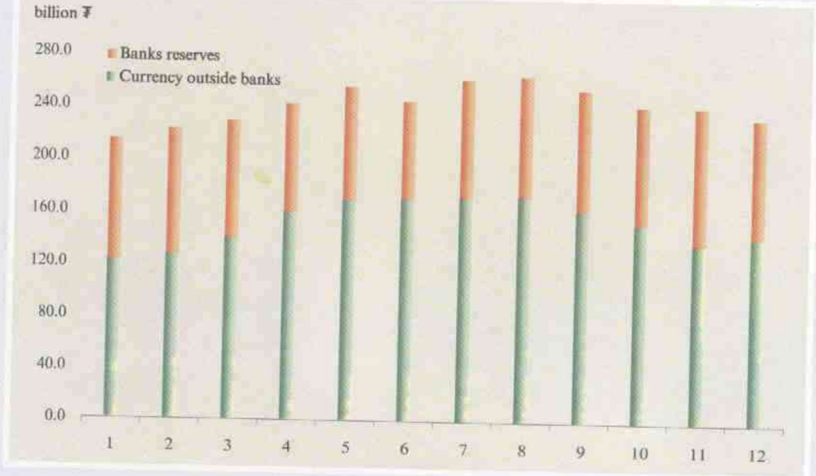
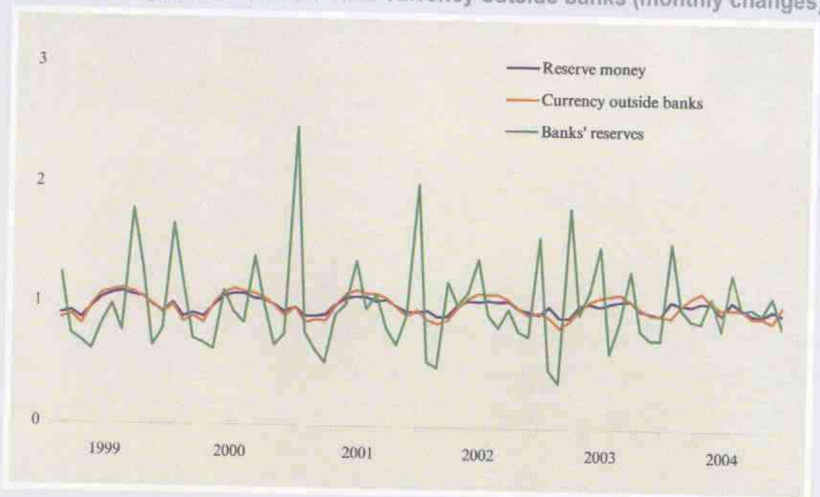


Figure 40. Reserve money, banks' reserves and currency outside banks (monthly changes)



central bank by controlling the supply of liquidities it would be able to affect the amount and terms of transactions and interest rates.

The crucial factor for successful liquidity programming is the establishment of the information channels to obtain necessary information and data from the related sources in a very short period of time. The Bank of Mongolia is continuing to work to improve and establish these channels.

Central bank bills

Reserve money is operational target of the BOM. The BOM influences reserve money by regulating banks' reserve supply. With this purpose, the BOM has issued Central Bank Bills (CBB) since 1993. CBB is the most frequently used instrument on the money market.

In 2004, the BOM organized 98 auctions and total of 1021.2 thousand CBB were sold for price of 1014.7 billion togrogs. Of these, 499.3 thousand were sold for price of 498.1 billion on 52 auctions with 7 days maturity dates; 230.7 thousand for 229.6 billion togrogs on 26 auctions with maturity of 14 days; 185.2 thousand for 183.3 billion togrogs on 14 auctions with maturity of 28 days; 79.0 thousand for 76.5 billion togrogs on 4 auctions with maturity of 91 days; 27.2 thousand for 27.1 billion togrogs on 2 irregular auctions with maturities of 1 and 3 days; all of which were bought by the banks.

During 2004, daily average value of the CBB held by the banks was 50.3 billion togrogs, which is 18.6 percent higher compared to the previous year end, and 42.8 percent higher than an average of previous 3 years. At the end of last year, the amount of the CBB purchased by the banks has reached a nominal value of 69.7 billion togrogs.

In order to prevent the overexpansion of monetary aggregates, the BOM increased the rate of the CBB and increased or decreased the amount of CBB at the appropriate time. In particular, the BOM increased an interest rate on 7, 14, 28, and 91 day bills from annual 10 percent to annual 12, 13, 14 and 15 percents in April; 14, 14, 14 and 15 percents in July; and furthermore to annual 15.5, 15.8, 15.9 and 16.0 percents in October. In the second half of 2004, the BOM tightened its monetary policy to decrease money supply and strengthen price of money in the economy by increasing both interest rate and issued amount of the CBB.

The annual weighted average rate on the CBB as of the end of the year was annual 15.75 percent. The BOM paid banks 6.3 billion togrogs as an interest on the CBB in 2004.

In order to manage their needs for very short-term funds by borrowing from the interbank market or to actively place their excess reserves at the interbank market, banks traded the CBB worth of 476.7 billion togrogs on the secondary market as a result of 379 transactions. Of these, banks traded CBB worth of 110.8 billion togrogs for each other on 81 auctions, and CBB worth of 365.9 billion togrogs traded through repo agreement on 298 auctions. The amount of the CBB traded at the secondary market increased by 40.7 percent or 32.0 billion togrogs compared to previous year while the amount of the CBB involving repo agreement increased by 58.6 percent or 135.2 billion togrogs.

At the interbank market, banks concluded deposit comtracts for USD 13.0 million and 2.4 billion togrogs using the CBB worth of 16.5 billion togrogs and Government bonds worth of 1.0 billion togrogs as a collateral.

During the 2004, the BOM were exploring the ways to shift the CBB transactions into the electronic format and were developing a particular CBB-sortware program in order to accelerate the CBB transaction and to expand the scope of interbank market, which might result in commercial banks directly doing their CBB-related transactions from their computers that are connected online. Therefore, CBB auction has more accessable opening.

Central Bank financing

The BOM may finance the commercial banks based on their need for short term money to provide banks with temporary liquidity as a lender of last resort. In particular, the BOM refinanced banks by purchasing or redeeming CBB before maturity, which is known as discount

Figure 41. CBBill's weighted average rate

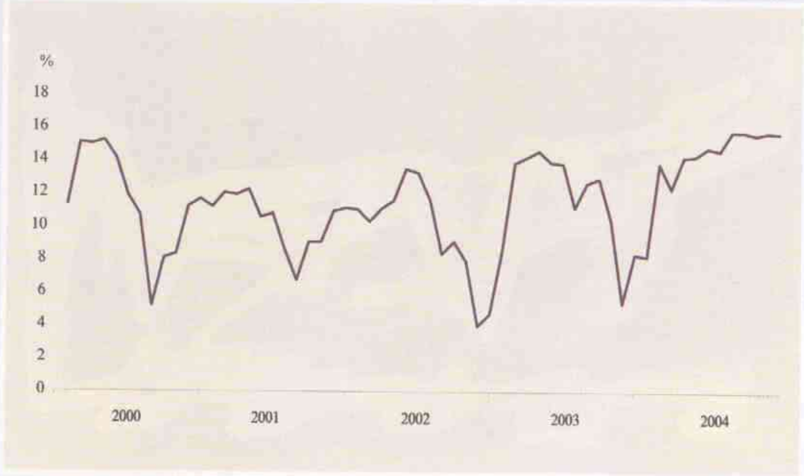


Figure 42. Money multiplier

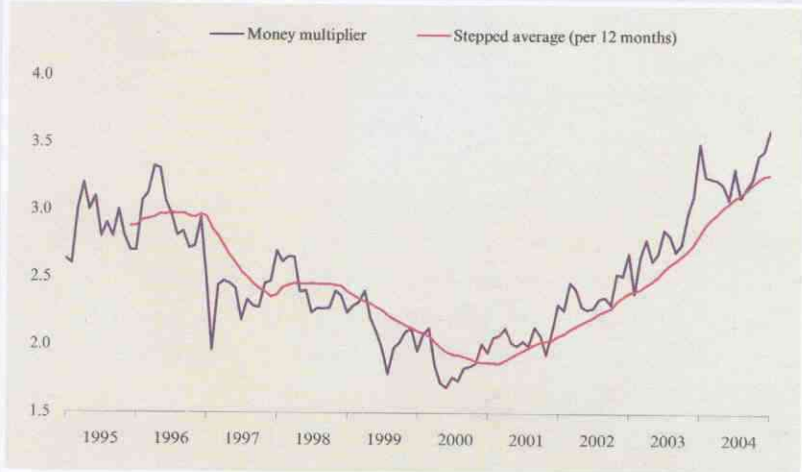
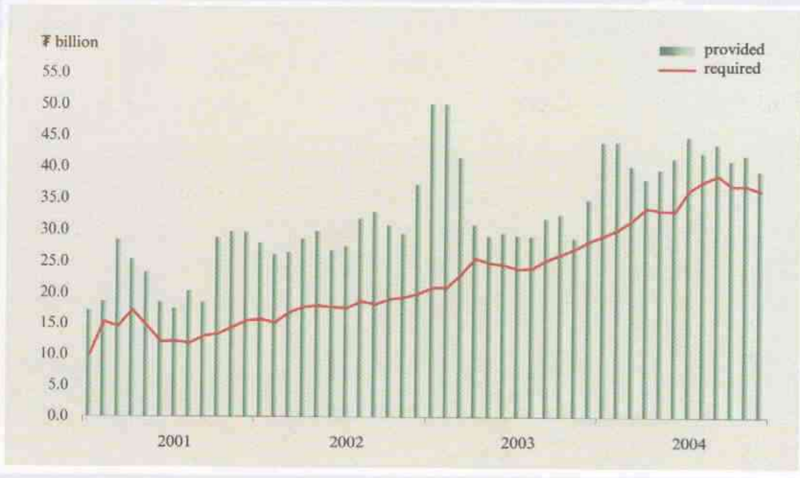


Figure 43.Reserve requirement



financing; or by entering in repurchase agreement with the banks to buy the CBB temporarily and sell them back at the pre-negotiated date, known as repo financing; or by extending overnight loan to banks in 2004.

There are several possibilities for the commercial banks to borrow: firstly, bank may obtain funds through the interbank market. In order to encourage interbank market, the BOM has changed an interest rate on its overnight lending as the highest interest rate of CBB plus 5 percentage points.

In 2004, the BOM made a total of 150.5 billion togrogs in refinancing, banks paid 183.0 million togrogs as an interest on these. This included 86.5 billion togrogs in overnight loans 24 times, 54.0 billion togrogs in repo refinancing 20 times, and 10 billion togrogs in discount financing 3 times. The amount of paid interest rate accounted to 49.9 million togrogs, 56.3 million togrogs and 76.9 million togrogs, respectively.

Required Reserves

In order to coordinate money supply and amount of reserve money, the BOM imposes a reserve requirement equal to 14 percent of a bank's deposits and monitors banks' compliance with the reserve requirement. Procedure of computation and monitoring of reserve requirement, penalty in the circumstance of deficiency, is set and regulated by the Regulation approved by the Governor in 2001. According to the Regulation of Defining and Supervising Required Reserves, the BOM calculates banks' required reserves twice during a month, and imposes penalties on banks in the case of deficiency. The reserve of the banking system has complied with the requirement in every month of 2004. The daily average balance of the current account of banks with the BOM has been 41.9 billion togrogs instead of required 34.7 billion togrogs, which implies that the banks' daily excess reserve has been 7.2 billion togrogs on average. Issuing CBB, as they were needed solved this excess reserve position. In 2004, penalty of 29.6 million togrogs was imposed on banks. Those banks paid a penalty of reserve shortage for minimum requirement due to as a result of their poor management of reserves while banking system still has been excess reserve at that time.

The average required reserve was raised by 41 percent, and banks' total average reserve was higher by 23 percent, but excess reserves were lower by 23 percent in comparison with 2003 figures. The increase in the amount of required reserve was due to deposit growth in the banks and fall in excess reserves was perhaps due to banks actively placing their excess reserves.

The BOM calculates the minimum amount of required reserve twice in each month, and sends their first and last 15 days required reserve amount to the banks based on the above mentioned calculation, and ensures the bank's liquidity through its constant monitoring of the compliance of the required reserve.

Net credit to the Government

In the reporting year the receivables of the banking system from the Government was MNT 137.5 billion. The savings of the government reached MNT 96.0 billion and the net credit decreased by 56.2 billion MNT and reached MNT 40.5 billion.

Receivables from the Government

The receivables from the Government decreased by 34.9 % or MNT 73.6 billion from the previous year and reached MNT 137.5 billion at the end of 2004. 77.1% of the receivables (MNT 105.3 billion) is to be paid to the Bank of Mongolia and the remaining 22.9% is (MNT 31.2 billion) to be paid to the other banks.

The receivables of the BOM is the outstanding loan with no interest rates (MNT 105.3 billion) to be paid by the Government which it obtained in order to repay the loan of transferrable roubles that Mongolia acquired from the former Soviet Union and to form the source of funding to repay the loan. The BOM is cooperating with the Ministry of Finance to reach an agreement regarding to issues such as the imposing interests on the outstanding loan and the making repayment schedule. In 2004 USD 37.0 million, MNT 11.7 billion was repaid by the Government.

As of the end of 2004 the Ordinary Government Security for Bank Restructuring amounted to MNT 14.4 billion and MNT 14.0 billion or 97.2 percent of this amount was held by Saving's bank and the remaining MNT 399.6 million or 2.8 percent was held by Trade and Development Bank.

The government of Mongolia redeemed MNT 4.0 billion that was placed at the BOM and MNT 2.1 billion of the debt securities in the Savings bank respectively. The losses that occurred due to the irresponsibility of the management of some banks at the end of 1990 are still being recovered by the State until today.

The Government issued bonds worth MNT 13.0 billion and USD 14.0 million 4 times in 2004 with the maturities of 60-240 days and interest of 3.50-13.25 percent. At the end of the year it had outstanding bonds worth MNT 14.0 million which were placed at the Trade and Development Bank.

The medium-term special purpose bonds and the medium-term discounted bonds that were issued by the Government in 2002 and had outstanding amount of MNT 1.3 billion were fully repaid according to the schedule at the beginning of 2004.

Government Deposits

The deposit of the Government was MNT 96.0 billion at the end of 2004. The amount of deposits decreased by 18.4 billion MNT or 16.1 % from the previous year. MNT 53.0 billion or 55.2 percent of total amount were deposits with the BOM and the remaining 44.8 percent or MNT 43.0 billion are deposits placed at other banks. In the reporting year MNT 74.8 billion or 77.9 percent of the Government deposits are concentrated at the Single Treasury Account and the current account of the Government, MNT 1.9 billion or 1.9 percent is time and demand deposits, MNT 19.4 billion or 20.2 percent was in the Government financing fund respectively.

On lending by the BOM

The Bank of Mongolia performs the issuance of loan using the source of funding provided by donors for developing the socially significant sectors which the domestic banks fail to support due to the insufficiency of experience and source of funding. In the reporting year the Bank of Mongolia continued issuing the program loan and performed its contractual duties appropriately with International financial organizations and the Ministry of Finance. For instance:

- *Agricultural sector development program (ASDP)*

In 2004 within the ASDP program of ADB the BOM issued loans which totaled MNT 9.4 billion with annual interest rate of 5.5 percent through Zoos bank, Mongol Post bank, Khas bank, Agricultural bank and Anod Bank. The banks set the interest rates of the loans issued to the final borrower according to the agreement and the average interest rate is 3 percent per month.

- *Employment Generation project*

Golomt, Zoos, Erel, Transport Development and Anod banks are involved in the «Employment Generation Project 1290-MON of ADB» which started in 1994. The BOM places Special Term Deposits for employment generation at these banks and the deposited funds at the end of 2004 were worth of MNT 3.0 billion.

In the reporting year 1336 workplaces were generated by the banks: Zoos bank created 411, Golomt- 431, Erel bank 186, Transport development bank-45, Anod bank-263 respectively. In order to expand the scope of this project, structural measures such as eliminating the limit of the regional areas and increasing the Special term deposits depending on the decrease of the interest rates were taken in 2004. As a result, the final borrowers are paying an interest of 2.0-2.9 percent per month.

- *KFW Program loan.*

A program with a purpose of supporting the export-oriented small and medium size enterprises for exporting and developing the financial sector of Mongolia in accordance with the agreement between the Government of Mongolia and Germany has been implemented.

As of the end of 2004, the total amount of source of funding for the loan obtained within this program was MNT 14365.7 million and BOM on-lent MNT 13853.1 million to the banks. The loans repaid by the banks were used to create the revolving fund and relent through the participating banks. By the end of the reporting year the revolving fund and the outstanding balance in the Bundesbank were utilized to the full. According to the related agreement, the interest rate of the loan issued to the final borrower should not exceed 7.75 percent per annum and this is a significant contribution made by the international organization in the development of small and medium size enterprises in our country.

5.2. Exchange policy and reserve management

Foreign exchange reserve management

By end of the 2004 net foreign exchange reserve of the country has reached 163.6 mln USD, increased by 34.6 mln USD, in per centage terms 26.8 compared with previous year. Import demand for 1 week become 19.4 mln USD, increased by 28.5 per cent from previous year which pressured the net reserve growth comparatively low, where we had 8.4 weeks import supply of net reserve.

In foreign exchange reserve of the country 244.8 mln USD income creditted and 210.1 mln USD expenses debitted from begining of the year. Compared with previous year foreign exchange income increased by 100.9 per cent and expenses decreased by 64.0 per cent and net income increased by 120.1 mln USD.

The monetized gold contributes highest share in increase of foreign exchange reserve income. Bank of Mongolia purchased 10.2 tonnes of gold in net weight from domestic gold miners, refined 10.2 tonnes of gold at foreign refinery, and transferred 135.6 mln USD worth of monetized gold to foreign exchange reserve of the country.

The average price of gold purchased from domestic market was slightly low than sold price on world market, which enabled to protect outcome of sharp volatile price.

In circumstances of comparatively limited reserve, high import dependence, highly seasonal volatility of demand and supply of foreign exchange in domestic market, constant supply requirement of Government debt service, the liquidity was first important concern of foreign exchange reserve of the country. Therefore over half of foreign exchange reserve was invested in cash or deposits upto one month, rest was in short term assets.

In world foreign exchange market the exchange rate of USD against major currencies dropped to lowest level ever, as gold prices rise volatility and movement accelerated, which negatively effected profitability of reserve management average return.

In order to keep purchasing power of reserve at certain level, the BOM took policy measures to increase assets negatively correlated against USD movement. Along with this activated investment operations in foreign government securities which positively effected to increase average return of reserve.

Exchange rate movement of the Togrog and foreign exchange market view

The exchange rate policy conducted from the Central Bank in compiling period was to support environment for economic sustainable growth, decrease financial and business risk , by the way of keep stable exchange rate of Togrog.

The exchange rate of Togrog depreciated on the interbank market by 3.7 per cent from beginning of the financial year of 2004 and stood at 1211.6. The depreciation of real exchange rate of Togrog was not more than 4 per cent in last in 5 consecutive years. That becomes foundation to stand up favourable business and economic macro environment based on stable price and value.

In second half of the year there has been dramatic depreciation of Togrog against USD caused by strong economic growth, strong demand of import goods and products, and fuel price drive on the world market, and certain effects. But by end of year those effects were slowed and trend of the Togrog movement has stabilized.

In first half of the year, Togrog usually appreciates by certain percent. Reason is that agricultural products export begins. In reporting period this appreciation has repeated. The exchange rate level of Togrog was 1170 at the beginning of the year, and from beginning of April it has started to appreciate and by mid of June it reached to 1160 Togrog per USD.

In 2004 preliminary estimated growth of GDP was 10.6 percent, and such high growth demands an increase in consumption of import products and foreign exchange. The main factor behind national currency Togrog's depreciation is domestic industrial development is poor, so demand for foreign goods constantly grow, by such amount foreign exchange needed to finance import.

Total import compared with previous year increased by 28.5 per cent and reached 1011.6 mln USD. Export increased by 42.2 per cent and reached 853.2 mln USD, and trade deficit decreased by 15.4 per cent and become 158.3 mln USD. Table of main foreign trade goods.

The positive movement on world market price of copper and gold, that are our main export commodities, have significantly increased our foreign exchange reserve and slowed the effects depreciating the Togrog. Table show us our main foreign trade commodities profit and loss accumulated from changes in amount and price compared with year of 2003.

From the table we would see in 2004 total export amount of gold and copper subtracted from import of fuel increased by 134.7 mln USD from previous year of 2003. In other words 134.7 mln USD excess supple has made in 2004 compared with 2003 only within this three commodity in domestic foreign exchange market.

The real exchange rate index of Togrog based on primary foreign trade partner countries exchange rate and inflation level depreciated by 7.5 unit and reached 86.4 at end of the year.

Although real exchange rate is main indicator of the country's competitiveness of products and services in domestic and foreign market, but as regards of reporting year even real exchange rate depreciated import has increased whish is proof of high import demand exist in domestic market.

Short period of political uncertain circumstance after Parliamentary election held in June of 2004 has also negatively influenced expectation of people the deposit owners withdraw deposits and converted into foreign. It was the main factor of Togrog's depreciation in the second quarter of the reporting year. Such trend also has noticed in the interbank market drived by demand and 84 per cent of total sold foreign from the bank of Mongolia to banks was from June till December.

The position of the Central Bank in interbank foreign exchange market was principally to keep free floating system of exchange rate and take measures to stabilize exchange rates in situations ad hoc or unrealistic fluctuations in the market. In the reporting year, the Bank of Mongolia purchased total of 51.3 mln USD and sold total of 133.9 mln USD. In total share of banks in purchased transaction is 66.3 %, Government is 33.7 %, gold miners is 4.3 %. In domestic market foreign exchange supply from the Central Bank was in type of cash payment for the gold purchased, debt service payments of Ministry of Finance, banks demand for foreign exchange.

Figure 44. Net international reserves

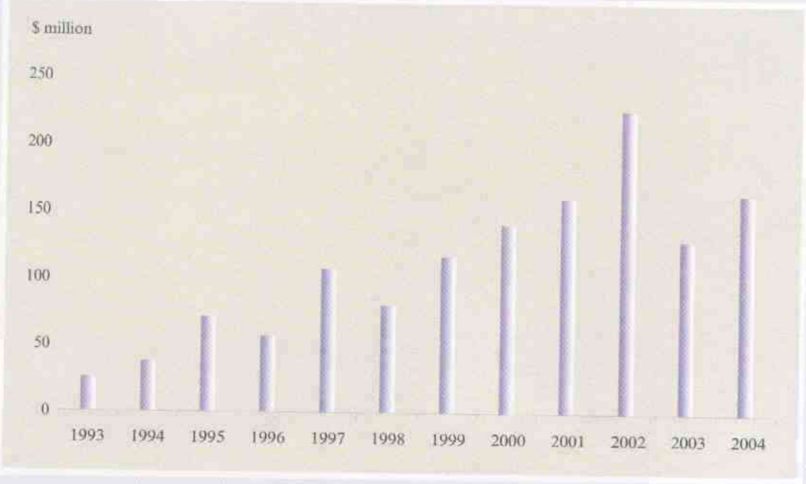


Figure 45. Togrog rate against US dollar

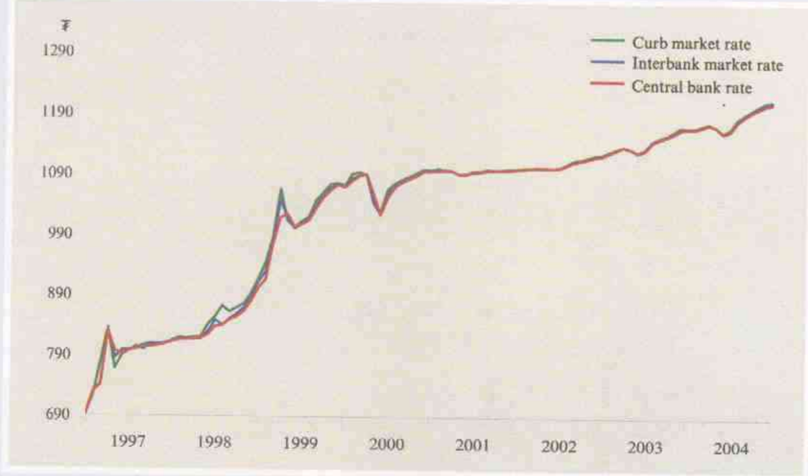
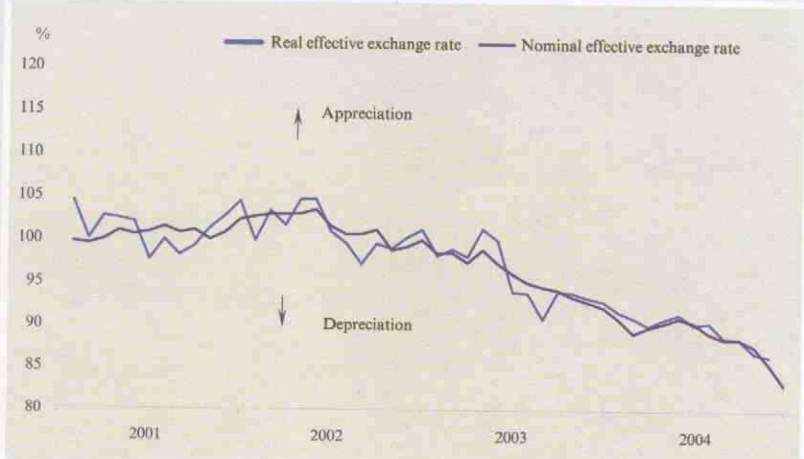


Figure 46. Real and nominal effective exchange rate



In last few years interbank market operation expanded, foreign exchange trading amount increasing every year. In compiling period banks purchased 890.5 mln, and sold 901.2 mln USD worth of foreign currencies converted in USD. Compared with previous year the amount of purchased foreign exchange by 26.9 %, sold foreign exchange by 30.3 % increased respectively.

As it was observed during the MNT depreciation in the second half of the year, people tend to use foreign currency, especially USD, as a safeguard measure against inflation risks during the times of political uncertainty and fluctuations in various economic conditions such as sharp increase in prices of goods and services. That is probably because there no other financial instrument and products are available for use as protection against inflation.

5.3. Supervision of banks and NBFIs

Last year the number of private entities providing financial services increased and their operations have been expanding. Main entities which comprise the financial sector of Mongolia are banks and NBFIs, and the Bank of Mongolia has been regulating them in accordance with its main goal, stability of the financial sector. The number of NBFIs also increased and their activities, especially lending operations, have been intensified.

Approval of the Regulation on NBFI Activities established a legal framework for supervision of these institutions.

Following an expansion of the banking sector, the necessity to improve supervision over the sector has arisen and issues related to the appraisal of risks and determination of further development prospects by banks have become more crucial.

In the year 2003-2004 in accordance with «Short–term strategy for Banking and financial sector restructuring and development», the supervision department has worked towards the following: to improve the scope and the quality of financial intermediation, ensure banking sector stability, set the basis for stable environment for financial sector and prevent from possible financial crises, support efforts to increase the confidence of investors, depositors and customers to the banking sector, establish a pleasant environment for bank and financial sector, advance the methods for protecting interests of depositors and preventing from possible illegal activities going through bank and financial institutes.

During 2003 and 2004 total assets, deposits, loan amounts increased by a considerable amount this indicates increases in the confidence of the general public resulted from policies implemented by the Bank of Mongolia to protect interests of depositors and customers of banks.

In accordance with its objectives to enhance the methods of supervision and ensure stability of the financial system, the Supervision Department have taken actions to improve its rules and regulations (prompt corrective actions for banks that had not met the prudential regulation on capital requirements, asset classification and loss provisioning) and issued specific methodology and guidelines on operational risk and measuring possible risks.

To maintain and strengthen the stability of the financial sector, enhance the competitiveness' of banks and financial institutions and their ability to withstand different types of risks, the

Bank of Mongolia issued a resolution requiring banks to take prompt measures to increase their equity capital from MNT 2 to 4 billion, and as of NBFIs from 30 to 100 million MNT. As a result of this policy banks' and NBFIs' financial positions strengthened. Based on the achievements mentioned above, it can be concluded that objectives specified in «Short–term strategy for Banking and financial sector restructuring and development» has been met.

The main objective of the Bank of Mongolia is to follow Law on Central Bank and other related laws and regulations in order to maintain and provide conditions for stability of financial sector, meet and fulfill the requirements set by The State Monetary Policy Guidelines. The State Monetary Policy Guidelines for 2004 approved by the Ih Hural (Mongolian Parliament) had, inter alia, the following idiosyncrasies compared to those adhered in previous years: maintaining and strengthening the stability and other achievements of the financial sector; providing possibilities for banks to conduct their businesses in accordance with international standards, facilitating the transparency of financial institutions, ensuring that the Bank of Mongolia supervision is conducted in line with internationally accepted methods and means, and to encourage banks to introduce new financial products and services, modification of accounting systems of banks in accordance with International Accounting Standards, establishing a legal framework for anti-money laundering and counter terrorist financing and deposit insurance.

Financial supervision framework

The Supervision System of banks and NBFIs has been conducted in accordance with internationally recognized standards and best practices and measures to improve it have been taken by the Bank of Mongolia in response to current circumstances. In last few years, as a result of an expansion of the banking sector and introduction of new technology probable risks of banks has been increased. Therefore, the supervisory activities has been shifted from simple compliance assessments towards risk-based supervision, new methods for evaluating and measuring unforeseen risks, has been developed, and market discipline has been enhanced. In line with the above, the supervision department is carrying out works to amend the laws and regulations issued by Bank of Mongolia so that it becomes in line with international standards and more importantly Basel II.

Last year, comprehensive on-site examinations of 16 banks aimed at evaluating their financial and liquidity positions and operations, were conducted in accordance with a predetermined schedule and general instructions approved by the Governor of the Bank of Mongolia. Supervision reports were discussed by the Board of Directors of the Bank of Mongolia and the fulfillment of related resolutions of the Board has been closely monitored.

Off-site supervision has been making evaluations of financial and liquidity conditions based on regulatory reports submitted by banks, containing data and related dynamics of profitability, asset quality and other financial indicators. Based on these evaluations, actions aimed at banks that have started to experience financial difficulties were promptly taken.

During the examinations special attentions were paid to responsibilities of internal and external audit, tightened accountability, proper corporate governance and staff training.

Actions taken to improve supervision

In accordance with its objectives to ensure stability of the financial system, the Supervision Department conducted on-site examinations and off-site surveillance of banks and NBFIs, taken action to improve its rules and regulations and issued specific methodology and guidelines to bring those rules and regulations to international standards and prudential norms. In addition to that, the Supervision Department is involved in the implementation of different projects funded by international financial organizations and donor countries, aimed at ensuring the stable growth of the economy and resolving issues related to the social safety net such as housing, unemployment and poverty, by establishing close cooperation with other government institutions, providing necessary information and participating in project units.

One of the main objectives of banks is to improve their profitability and proper management of the different types of risks inherent in banking operations is one of the indispensable activities of financial institutions in developed countries. The outstanding loans are growing rapidly in recent years. Nevertheless, share of non-performing loans in total loans has a tendency to increase, so banks have to abandon outdated techniques to manage credit risk and introduce more sophisticated methods and technology. Supervision department developed «Credit risk measurement guidelines» for banks to allow them measure risks of specific borrower and loan portfolio in an accurate way, moreover provide possibilities for better allocation of capital and thereby increase profitability and improve management of assets.

Certain amendments were introduced to the «Prudential ratios regulation of the banks» since some of banking standards and regulations have been changed, financial and solvency conditions of the banks have been stabilized, delays in customer payments and settlements are fully eliminated, and some of provisions of the regulation are needed additional clarification. These amendments include, inter alia, analysis of liquidity risk by maturity profile, amendments refinement of prompt corrective actions, encouragement measures for long-term financial products, and modification of foreign exchange risk measurement techniques.

Minister of Finance and Governor of the Bank of Mongolia jointly approved amendments to «Asset Classification and Asset Provisioning Regulation» for banks and NBFIs that applied in classification of loans, guarantees, letters of credit, contingent liabilities, securities, other real estates owned, other claims, and providing relevant provisions. These changes include improvements in asset classification rules, making it compatible with international standards, associating provisioning policies with economic and financial conditions. In addition, when classifying loans, quality factors are used as a supplement to quantitative factors. Loan loss provisioning percentages for the substandard and doubtful loans were 25 and 50 percent according to old regulation, which are now increased to 40 and 75 percent respectively.

Main objective of the banking supervision is to ensure stability of the financial system, and protect depositors' rights. In year 2004, the final draft of a Law on Savings deposit has been prepared and actions to submit it to the State Great Hural has been taken.

Some large Mongolian banks have successfully introduced new accounting software developed by the Australian Company FNS, while other banks have been using accounting software developed by domestic companies. Issues related to accounting software inevitably arise with the increasing number and variety of new financial products offered. Thus, it has become necessary for the Bank of Mongolia to improve its reporting standards and related chart of accounts. Bookkeeping at banks was carried out in accordance with the Bank of Mongolia accounting regulations, but it has become inconsistent with this because of the developments mentioned above; namely, the introduction of new accounting software, and banks' demand to make more detailed analysis of collected information. Therefore, starting from last year banks have been required to conduct their accounting in accordance with international accounting standards, but submit information in line with regulatory reporting forms approved by the Bank of Mongolia. As a result, the chart of accounts has become more detailed and new problems in conducting comprehensive analysis of the condition of banks were partially resolved.

During the last few years, due to some inefficiency in the legal framework and immature control systems in some developing countries, cases of money laundering the proceeds of international criminal activities including human trafficking, slavery, drugs, and arms trafficking have been widely evidenced. So far, there is no official evidence of such cases in Mongolia. However, due to the stabilization of the financial sector and the poor development of the legal framework compared to those in other countries, there is a possibility that money launderers could target Mongolia in future. The main purpose of money laundering activities is to transform the depiction of proceeds of criminal operations as legal and then hand it back to criminals. Therefore, there could be some incentives for these criminals to achieve their goals through stable financial systems. The experience of some countries shows that when money-laundering activities are integrated in the financial system, its stability is threatened, corruption intensifies, and the moral fiber of society is eroded. Therefore, the Bank of Mongolia has issued its «Guideline on combating money laundering» to increase awareness among banks and other financial institutions. This guideline was based on FATF recommendations, issued in 1990, and later amended in 1996. Issues related to the legal aspects of money laundering, enforcement measures, the regulation of financial systems and international cooperation were included in the guideline. In 2004, Mongolia became a member of the Asia/Pacific Group on anti-money laundering. In addition, concept of the Law on Anti-Money Laundering and Counter Terrorism Financing has been approved, and actions to submit final draft of the law to the State Great Hural has been taken.

Capital adequacy

As of the end of last year, the risk weighted capital adequacy ratio reached 20.0 percent, which is lower than the previous year figure by 0.4 percent and two times higher than the regulatory minimum requirement.

On September 2001, the Bank of Mongolia issued a resolution requiring banks to take prompt measures to increase their equity capital to MNT 4 billion by March 31, 2004. This resolution intended to enhance the ability of banks to withstand different types of risk and to expand the scope of their operations. In the subsequent 3 years, banks have been gradually raising their core equity. All banks managed to increase their equity capital to required level; therefore, Governor of the Bank of Mongolia issued a further resolution requiring banks to increase their equity capital to MNT 8 billion by March 31, 2006 in 2004. Increases in equity capital and accumulated profits resulted in significant rise of the overall capital by MNT 56.6 billion, but due to tendency of banks to allocate their liabilities to more risky assets, capital adequacy ratios has not been affected by injections to the equity capital. As of the end of last year, all banks complied with the capital adequacy prudential requirement.

In association with growth of number of NBFIs and accumulated profit, capital accounts of NBFIs climbed to MNT 20.8 billion, which was 51.2 percent, MNT 7.0 billion higher than the figure from the previous year.

Risk weighted assets soared to MNT 20.5 billion, but capital growth was higher than the growth of the risk weighted assets. In conclusion, ratio of tier-one capital to risk-weighted assets ratio was 92.01 percent, and ratio of total capital to risk-weighted assets was 96.65 percent.

Liquidity requirement

In 2004, amendments were introduced to the «Prudential ratios regulation of the banks» which abandoned liquidity requirement and introduced maturity gap analysis instead. According to the consolidated report of the banking sector, short term liabilities exceed short term assets, but future cash flow shows that this gap can be covered, which shows liquidity risk is in adequate condition. Maturity gap of the banking sector is shown below:

Total attracted funds of NBFIs grew to 7.4 billion, and liquid assets reached 8.2 billion, because NBFIs were attracting funds from other financial funds. The liquidity ratio of the NBFIs was 111.33 percent, which was higher than the prudential requirement.

Lending activity and quality of the loan portfolio

The growth of outstanding loans was 45.7 percent, which is lower than the previous year's growth rate by 42.1 points. As a result, the total amount of loans reached to MNT 649.0 billion. The average lending rate estimated on accrued interest income decreased from the previous year's figure by 2.3 point to 22.3 percent, which is 7.7 percent lower than the declared average lending rate.

According to changes made to «Asset Classification and Asset Provisioning Regulation», introduced in October 2004, past due loans are no longer considered as non-performing loans and by this new regulation, total non-performing loans increased by 85.0 percent, or by MNT 18.0 billion, to MNT 39.1 billion. Share of non-performing loans in total loans is 6.0 percent, which is 1.3 points higher than the figure from the previous year. Although this figure is lower than the figure in times of banking crisis, it is increasing in the last 3 years and it can be interpreted as follows: on the one hand, credit risk of borrowers increased and on the other, due to a rapid increase in borrowers and loans issued, credit monitoring weakened. Therefore, it is necessary for banks to improve their lending activities.

Reliable information and the analysis of borrowers' creditworthiness are crucial for the mitigation of credit risk. In order to provide assistance in this area, the Bank of Mongolia has been taking actions, within the World Bank's technical assistance project, to expand the operations of the Credit Information Bureau. Primary attention has been given to the improvement of software and hardware and expansion of the scope of information on borrowers contained in the database.

Last year, fueled by an increase in attracted funds, the total amount of outstanding loans of NBFIs soared by 35.5 percent, or MNT 6.5 billion, to MNT 18.3 billion, which represents 64.0 percent of their total assets. This is equal to 2.8 percent of the total loans of the banking sector. Share of interest-earning assets in total assets stand at 64.0 percent, which shows NB-FIs are allocating their assets accurately, and working actively in the loan market and doing financial intermediation.

High growth of total issued loans, and other similar assets resulted non-performing assets (loans, financial leasing, factoring claims) to grow from 772.9 million to 788.7 million, but its share in total loans and similar assets declined from 2.6 percent to 4.3 percent. In addition, share of non-performing assets in total assets decreased slightly from 5.0 percent to 4.0 percent.

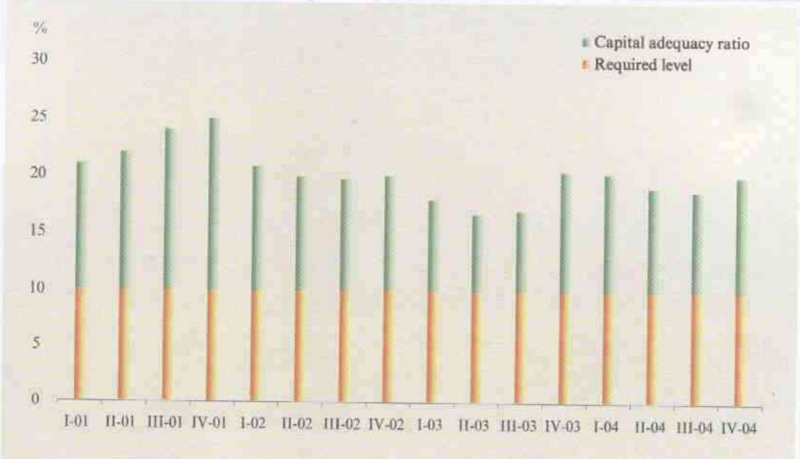
Most NBFIs, except few, comply with the restrictions; stipulated in article 13 of NBFIs law, which states that loans to one borrower cannot exceed 30.0 percent of the NBFIs capital.

Foreign exchange risk prudential requirement

As of the end of last year, the aggregate foreign exchange risk ratio calculated from the consolidated balance sheets of NBFIs was 27.4 percent and it complies with the prudential requirement. However, in order to mitigate foreign exchange risk, NBFIs tend to issue loans in foreign currency, which increases the likelihood of violating prudential requirement. In the reporting year, most NBFIs complied with the foreign exchange risk requirements.

During the last year, total assets of NBFIs reached 28.7 billion, which is equal to 2.7 percent of banking sector total assets and return on assets was 5.8 percent. Total capital of NBFIs reached 20.8 billion, which is equal to 12.4 percent of banking sector total capital and return on equity was 8.0 percent.

Figure 47. Capital adequacy ratio



Asset quality of the NBFIs was relatively good and share of interest-earning assets in total assets was 63.6 percent. Main financial and solvency indicators of the NBFIs are improving, but their role in financial intermediation is still limited. NBFIs interested in broadening their activities by attracting funds, rather than injecting own capital, which caused them to engage in other financial services allowed by NBFIs law, especially trust service and ordinary bonds according to Company law.

Since reduction of possible loss and improvements in asset quality is necessary, the exception of provisioning expenses from taxable income and problem on fulfillment of collateral contracts have to be introduced to the Civil law. These are directly related to the NBFIs' risk bearing and profitability; hence, associated legislations have to be changed.

In conclusion, NBFIs engaged in more activities allowed by law (trust service, issuing payment instruments etc.) to attract more funds, and share of interest earning assets in total assets is increasing, but on the other side, possible loss is also growing.

In most cases, capital size of the NBFIs allows them to engage in only one main activity, and NBFIs' interest to attract funds is growing. Therefore, minimum capital of the NBFIs has to be increased to raise capital, and prevent possible risks. Researches are being done on this issue.

Furthermore, changes were made to the «Regulation on licensing of non-bank financial activities», which is approved by the Governor of the Bank of Mongolia in 2003 by decree #136, aimed at increasing foreign investment by attracting funds from foreign residents, and allowing establishment of 100 percent foreigner-owned international NBFIs. Works related to licensing issues are being done.

Market risk

Banks started to use more sophisticated methods (VaR) to measure market risks and few banks use these methods to calculate capital needed to cover foreign exchange risks.

Last year, exchange rate of MNT against major currencies declined (depreciated) and banks not only maintained their long positions in foreign currencies, but also increased it by 11.9 percent to MNT 45.0 billion. Growth of the capital was higher than the growth of the long position, therefore foreign exchange risk decreased by 2.9 points to 33.6 percent. It complies with the foreign exchange risk prudential requirements set up by the Bank of Mongolia.

Economic activity of households, companies and other institutions has created demand for comprehensive financial services. Taking into account these developments, banks have been broadening the scope of services; they provide and try to boost their incomes through fees and commissions from these services. During the last few years, some banks have issued their own debit and credit cards, which is one form of non-cash payment and settlement, and last year they were more focused on improving the forms and quality of the card service. New activities of the banks not only save time for their customers, but also simplify access to financial services.

On one hand, increasing new products and services, and competition of quality are beneficial to customers, but, on the other hand, it has become necessary for banks to give special attention to new types of risks caused by internal and external factors, and develop progressive methods for mitigation of those risks. Regarding this problem, several banks developed risk management systems and built systems to prevent from large losses.

Bank privatization

During the last few years, within banking sector restructuring measures aimed at ensuring the stability of the financial sector, actions to privatize state-owned and state-participated banks have continued. The privatization of state-owned shares to foreign investors is not only important because it creates conditions for the further development of the financial sector, and ensures its stability, but it is also significant in terms of attracting foreign direct investment. In year 2004, International Financial Corporation and Asian Development Bank agreed with Trade and Development Bank to make investments in equity capital and subordinated debt. According to the contract, MNT 9.8 billion is invested in the subordinated debt of the Trade and Development Bank. In addition, International Financial Corporation and DAI corporation invested in Agricultural bank, composed of MNT 585.0 million in equity capital, and MNT 1.2 billion for the value added stock.

Capital bank also announced the privatization of its state-owned shares. Therefore, there remains only one state-owned bank, Savings bank, and it is highly probable that it will be privatized in the near future because Savings bank is doing well and its financial conditions are improving.

5. 4. Accounting and information technology

Accounting

In the reporting year, the Bank of Mongolia emphasized more on complying its accounting practices with international standards, improving accounting disciplines, executing transactions promptly, and reducing risks. Consequently, the BOM improved «Provisional Regulation of Accounting», which was implemented beginning from 1995, made the regulation more in line with accounting principles and drew up «Accounting Regulation of the Bank of Mongolia.»

In 2004, the BOM as advised by experts from the IMF has worked on its plan to amend the accounting regulations, to do analysis on inter bank domestic and foreign currency transactions and on system's financial reports.

Beginning from 2002, IAS 39, an international accounting standard, has been implemented experimentally in international transactions. In the reporting year, in order to revise the accounting principles, several changes have been made such as recording the amount of option and forward trades in foreign currency in off-balance accounts instead of balance sheet, on which they were formerly recorded, and recording premium of option trade in balance sheet.

Summary of system balance sheet (transactions balance) became available in the BOM system within related software beginning from 2003; thus, during last two year, employees of Accounting and Information Technology Department of the BOM have emphasized more on implementing suggestions made by experts of the IMF and Ernst and Young Mongol Audit and on improving the consolidation of system financial reports.

In the reporting year, manually recorded cards of fixed assets were eliminated and now they are recorded on the computer using software.

Inter bank settlements

One of the main indicators of economic growth is ratio of total amount of inter bank transaction settlements to GDP; or GDP turnover. As the number and amount of transactions going via inter bank settlements, GDP turnover speeds up. In other words, GDP turnover indicates how fast the broad money (non-cash) transacting between banks. While this indicator was 1.2 in 2000, it increased to 1.7 in 2001, 2.2 in 2002, 2.8 in 2003, and 3.1[4] in 2004. Such stable growth reveals improved public confidence in the banking system and their increased interest in executing transactions though banks.

General trend of the number and amount of inter bank transactions' during last 5 years (July 1999 to December 2004) is clearly increasing.

In order to improve security and authentication when users are working on the information system, the BOM approved new regulation «Regulation on security and authentication of working place of inter bank network users» in 2002. Thus, facts that parties of inter bank transactions are provided with working place complied with the BOM requirements and users are connecting to network with specific permissions have played certain role in increasing the number of transactions.

The number of transactions tends to decline in January, February, June, July and November while it tends to increase in August, September, and December from previous months. On the other hand, the amount of transactions decreases in January, February, July, and November and increases in March, June, August, September, and December.

The most transactions are executed in fourth quarter of a year both in terms of amount and quantity as the last transactions are settled at the end of a year. The least amount of transactions is observed during first quarter due to only beginning of budget financing. During the last 5 years, the year with highest increase in the amount of transactions was 2003 (83.1 percent) while the most growth in the number of transactions was observed in 2001 (53 percent).

Correlation coefficient between the number and the amount of transactions was estimated was 0.9. Growth in the number and amount of transactions has a tendency to get more rapid and compared to previous years, the number of transactions increased by 83.1 percent in 2003 and 22.9 percent in 2004 while the amount of transactions rose by 22.9 percent in 2003 and 38.5 percent in 2004.

Graph on ratio of the number of transactions with amount up to 1 million to the total number of transactions is shown January 2001 – December 2004.

[4]Estimated at preliminary GDP.

Figure 48. Interbank settlement

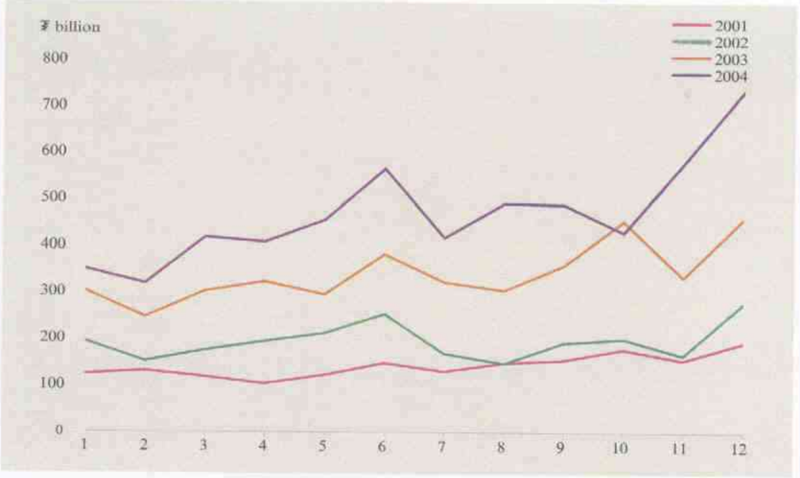


Figure 49. Bank's transactions (in bln togrogs)

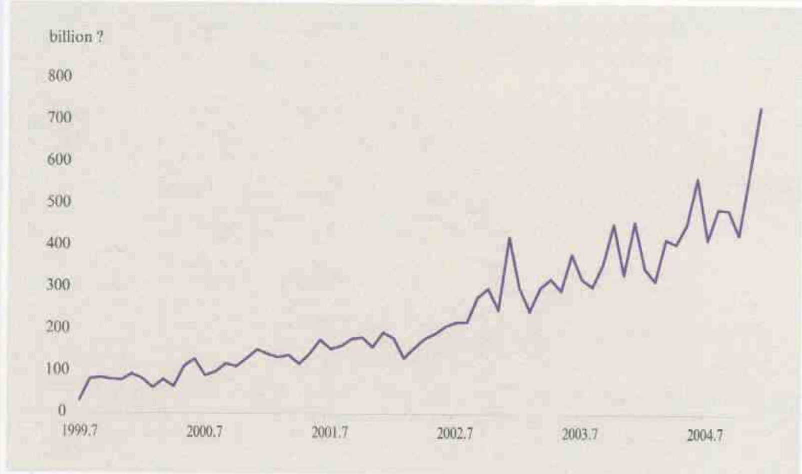


Figure 50. Number of bank's transaction (in thousands)

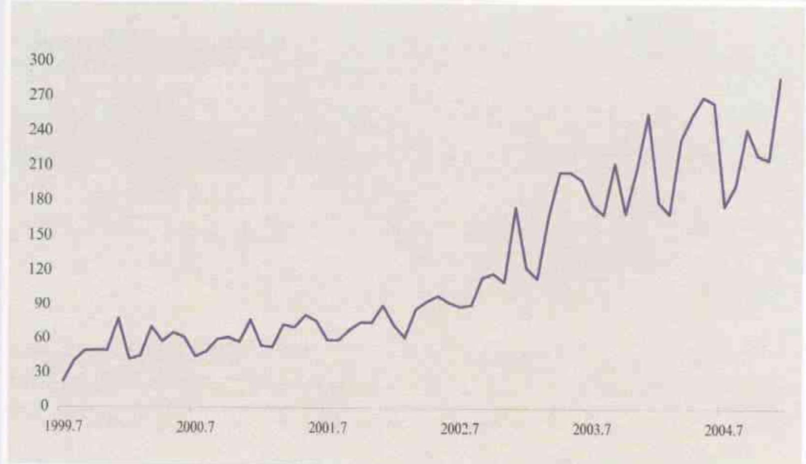


Table 28. Number of bank transaction (in thousands)

	Year 2000	2001	2002	2003	2004
I quarter	158.6	180.7	222.2	406.4	586.3
Change (percent)	-	13.9	23	82.9	44.3
II quarter	185.5	228.6	287.1	611.7	793.4
Change (percent)	-	23.2	25.6	113.1	29.7
III quarter	154.2	118.4	295.6	561.9	617.3
Change (percent)	-	-23.2	149.7	90.1	9.9
IV quarter	196.7	241.2	405.9	636.7	727.1
Change (percent)	-	22.6	68.3	56.9	14.2
total	695	768.9	1210.8	2216.7	2724.1
Change (percent)	-	10.6	57.5	83.1	22.9

Transactions with amount of up to MNT 1 million have the highest share in the total number of transactions or to be precise, the percentage share is 84.0 – 90.0 percent.

Percentage share of transactions with amount of MNT 1 to 5 million was relatively stable, fluctuating around 6.6 -9.8 percent while that of transactions with amount of MNT 5 to 10 million is the lowest or between 1.2 to 2.1 percent. Percentage share of transactions with amount higher than MNT 10 million is around 2.0 – 3.8 percent.

Because the single treasury account started participating in the inter bank transactions, there were significant changes in the bank's participation rate in the total transactions. Percentage of Trade and Development bank, which used to be considered as the biggest in terms of the amount of transactions, declined by 17 percent, that of Mongol Post bank by 7 percent, Golomt bank by 6 percent, and Savings bank by 1 percent while percentages of Agricultural bank increased by 1 percent and the other banks' by 10 percent.

Table 29. Value of bank transaction (bln togrogs)

	Year 2000	2001	2002	2003	2004
I quarter	221.9	414.1	471.5	850.2	1086.4
Change (percent)	-	86.6	13.9	80.3	27.8
II quarter	305.2	436.8	581.9	1000.4	1429.3
Change (percent)	-	43.1	33.2	71.9	42.9
III quarter	306.9	494.8	718.2	986.8	1400.1
Change (percent)	-	61.2	45.1	37.4	41.9
IV quarter	395.6	535.6	972.3	1249.5	1746.3
Change (percent)	-	35.4	81.5	28.5	39.8
total	1229.5	1881.3	2743.9	4086.9	5662.1
Change (percent)	-	53	45.9	48.9	38.5

Figure 51: Ratio of transactions of up to 1 million togrogs in the total

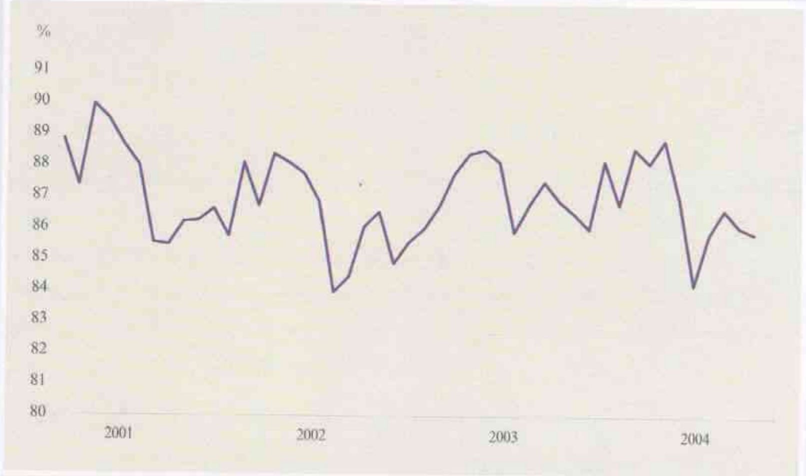


Figure 52: Banks' participation in interbank settlement

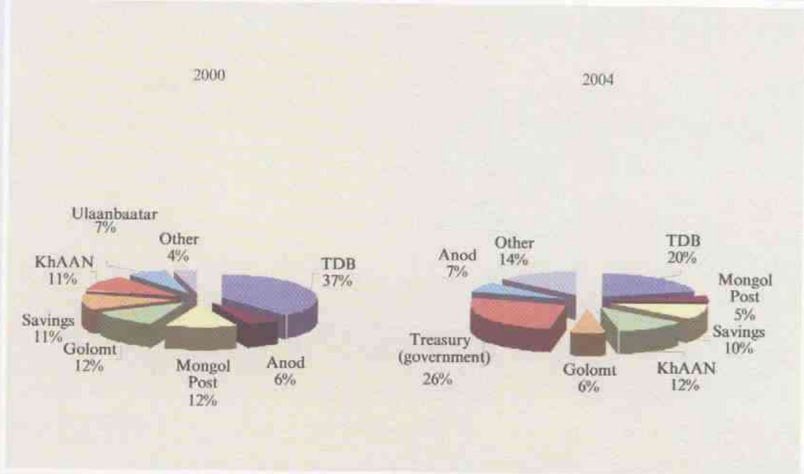
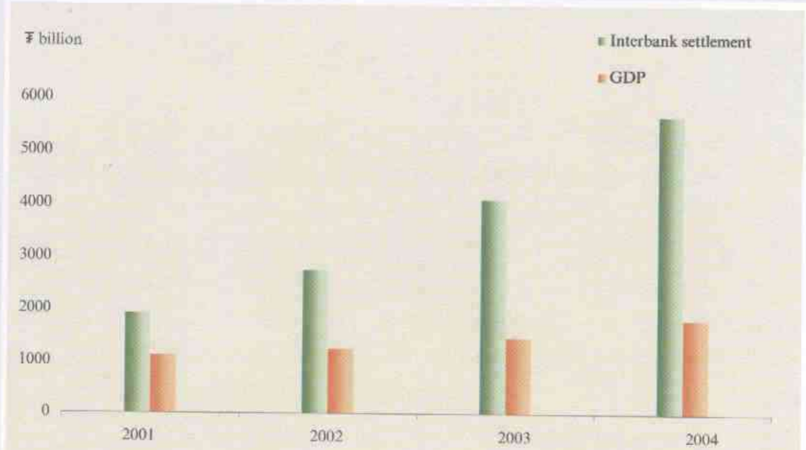


Figure 53. Interbank settlement and GDP



Information technology

Daily activities of the banking and financial institutions are expanding and improving as technology advances; consequently, introduction of new technology, providing better security of information technology and monitoring it, and maintaining normal operation of information provision have become one of the most important issues.

The BOM introduced improved software for Central Bank bill trading and accordingly, related amendments have been made to Accounting Regulation of the BOM and Regulation of Central Bank Bill. The latest technology or web technology has been used in making the software in order to reduce human participation in execution of trades to the minimum possible level, decrease risks associated with human mistake, provide equal rights to trade participating banks, and clarifying parties' responsibilities and obligations.

Furthermore, such amendments as revising payable and receivable forms of the Ministry of Finance and the BOM, improving precious metal accounting, renewing account statement of international transactions, establishing new module for banks' daily payables and receivables, and classifying transaction codes by sources have been made to the Accounting Regulation of the BOM.

With objective of improving all activities of the BOM and providing promptness and reliability, «Human resource database system,» Wage system,» and «Time-keeping system» have been drawn up and website of the BOM has been revised and modified.

Experiment of Oracle Internet Application Server 9.02 to increase security and confidentiality of the BOM accounting and other respective system was completed and we are investigating possibilities to translate current program modules.

The BOM maintained reliability of daily activities of the international transactions network, SWIFT, and introduced new service called SwiftNet, installed SNL 5.0.0 and SAE 5.5 software on Swift live and reserve servers and on users' computers. SwiftNet is connection system with high level of authentication and security and founded on Internet Protocol, which is based on the latest innovations of technique and technology; and it provides possibility to transfer international transaction information in online system.

The main objectives of World Bank financed project «Promoting financial capacity», which consists of three parts, are to reduce risks faced by the financial sector and strengthening financial intermediation by developing capacity of Mongolian banking sector. The BOM is in charge of implementation of the second part of the project and that is to revise non-cash payment system and to establish economical payment system which complies with needs of the Government, economic entities, and individuals and covers all economic sectors. Within the framework of the implementation, we are working on establishing general inter bank system, launching clearing center for low amount transactions and non-cash payments, and creating favorable legal environment to be able to execute non-cash payments without any delay and difficulty.

International tender was announced for supplying technique and software to new Switch/Clearing center, established as part of the World Bank project. Out of 8 proposals, ESP-LINK product by SLM Soft of Canada was chosen by conclusion of the Evaluation Group and the decision was approved by the Tender Committee. At that time, the company was merged with Bevertec CST, one of the leading information technology companies in Canada; thus, the BOM has drawn up an agreement with Bevertec CST to supply and install techniques and software for the Switch/Clearing center.

According to the agreement, project implementation plan was drawn up and currently, Bevertec CST has supplied and installed all necessary technique and software in both main and reserve centers. Furthermore, revised version of the document «Description of data generator» along with Mongolian translation were distributed to commercial banks; and trainings for staff, software settings, connecting with the banks are tasks that are next in the plan.

Former building for the Banking Training Center was renovated and now is ready for occupancy by the Switch/Clearing center. In order to have electrical source to retain continuous operation, maintain the highest possible level of security and confidentiality, establishing the second or reserve center has become necessary; therefore, the reserve center was built in compliance with the international standards and began its operations.

Within the project to establish general financial network, connecting the Switch/Clearing center with the BOM, Ministry of Finance, and all commercial banks and installing final techniques have been executed according to the plan; however, Menatep and Chingis Khan banks have not been connected to the system due to certain reasons.

One of the main objectives of the project is creating favorable legal environment for prompt transactions. Accordingly, such standards as ISO-4909:200E, ISO/IEC7811-1, ISO/IEC 7813, ISO/IEC7812-1 have been translated and approved by the Mongolian National Center for Standardization and Metrology.

5.5. Other activities

Management, organization

The state monetary policy in 2004 was directed to ensuring the stability of Togrog, improving the favorable business environment in the banking and financial sector, deepening and strengthening last achievements and stabilization. The Bank of Mongolia's staff conducted its activity with the purpose to implement successfully the monetary policy.

The BOM organizational structure comprised management, 6 departments, 11 divisions, 9 units, 1 special sub division, 1 project unit, 17 local branches in aimags and the representative office in London. The BOM employed 310 civil servants.

The head office of the BOM employed 224 employees, of which 103 were female, and 121 male, while local branches had 93 employees in total, of which 50 were female, and 43 were male.

In the reporting year, such issues as improving the professional capability and educational level, developing the creative initiative, transparency and ability to express own opinion, confidence based relationship, providing social security of employees and various benefits and facilities were included in the human resources policy framework.

With the purpose to implement the measures stated in the Monetary Policy Guidelines, ensure the stabilization of banking and financial sector, deepen and widen the banking restructuring, the human resources policy was directed to facilitate the recruitment and employment of high educated and well-trained staff. In order to provide opportunities to employees for gaining the internationally accepted education, fulfill the right to study, the BOM sent its staff to attend the seminars and long-term scholarship programs, organized by the World Bank, IMF, and other international organizations. As a result, the investment in human resources was enhanced, knowledge and professional skills were improved, and the work productivity increased. In 2004, 120 employees were trained in total, of which 40 attended domestic training courses, and 80 overseas courses.

In the reporting year, 1 person gained PhD, 4 master degree in USA and Japan, 1 master degree in Mongolia. Among the BOM staff there were 3 doctoral candidates and 40 holders of master degree. In 2004-2005, 2 persons were involved in domestic doctoral degree program, 1 in distance learning program for PhD abroad, 13 persons studied towards master degree in Japan, Australia, USA and other counties, 2 in domestic programs for master degree. Out of all employees, 75 percent was qualified in banking and finance, about 38 percent of service offices were with high education.

The BOM devoted a special attention to providing the staff with comfortable living conditions with the purpose to improve their professional attainment. Within the framework of this activity, the BOM has taken measures such as follows:

- construction of a new extension building for office use,
- provision of 15 employees with the apartment,
- professional medical test of all staff twice a year,
- establishment of well equipped training room,
- organization of meeting with retired staff according to Regulations on providing the retired staff with benefits and additional pensions.

Internal Audit Activities

Within the framework of internal audit activities and according to the Internal Audit 2002-2006 program, 2004 planning in the Internal Audit Department was carried out by putting control on whether activities directed toward the implementation of state monetary policy were performed according to legislation in all the BOM's departments, divisions and provincial branches by giving instructions, recommendations and taking relevant measures to reduce risk, secure from potential risks and losses and to detect irregularities.

During the reporting year, the BOM conducted 59 regular, surprise and partial on-site inspections on BOM departments, divisions and branches. The primary focus was on high risk areas and work was done to investigate and correct irregularities.

Also, internal audit activity was assessed on a half-yearly basis, reported to the Board of Directors and Supervisory Committee of BOM and relevant measures were taken according to audit results.

According to the Government policy to develop Mongolia zonally, the BOM made research on defining the prospects of provincial braches in connection with position of territory, populate area, factory, agriculture, infrastructure, and tendency of development of other sectors. This issue was discussed by the Board of Directors of BOM. As a result, branches in Selenge and Bulgan aimags, and representative office in Tuv aimag were dismantled and branches in Darhan-Uul and Orhon aimag were reorganized.

In the reporting year, in order to improve and develop internal audit activity and bring it to international standards, we focus to upgrade the working skills, independence, and professional attentiveness of the supervisors and to form real consideration for any issues, in accordance with advice from the IMF. Moreover, our work was focused to improve principles, regulations, and guidance which are used in internal audit activity.

This year, the BOM reported on the Supervisory Committee of the BOM and the Board of Directors results and implementation of the recommendation and suggestion which were given by the Audit Company and the Supervisory Committee of the BOM.

In the reporting year, the Internal Audit Department of the Bank of Mongolia invited the «Ernst & Young Mongolia Audit» team to audit the BOM's financial statement for 2003 and to make a special audit of foreign reserves management activities as requested by the IMF. Attention was given to responding to their recommendations and relevant measures have been taken.

Issue of Banknotes and Coins

In the reporting year, the BOM carried out the following activities regarding the issuance of currency:

In 2003, the BOM signed an agreement with the German company, basis on research of currency in circulation, for the re-printing of 50 and 100 togrog notes to be put into circulation in the third quarter of 2004.

According to the lack of reserves of the small and medium notes in 10 and 20 denominations, the BOM signed an agreement with the English company, for the re-printing above-mentioned notes to be put into circulation in the first quarter of 2005.

Moreover, activities have been carried out constantly to supply the provinces and regions with cash in required denominations through branch offices, to withdraw damaged and worn banknotes and to re-count and verify banknotes.

In the reporting year, in order to improve the activity of withdrawing worn banknotes, the BOM made an agreement with German company for purchasing machine BDS-400 for the purpose of withdrawing worn banknotes.

In 2004, the BOM withdrew 44.8 million damaged notes worth MNT 83.0 billion from circulation and as end of the reporting year, MNT 168.5 billion was circulated.

On the occasion of the 800th anniversary of the establishment of New State, the BOM has presented to the Parliament an initiative that issuing the memorial banknotes for the purpose of perpetuating the anniversary.

Foreign Cooperation

In June of the reporting year, the BOM joined to the Asian Pacific Countries Council (APG). This Council was established in 1997. It has 28 member and 11 observing countries. The main goal is to prohibit and restrict the activities of money laundry and financing terrorism in the region. The member countries are fully able to take a technical assistance by the rules from the donor countries.

The Workshop on Compilation and Utilization of International Investment Position, which conducted by the Training Center of SEACEN was successfully organized in Ulaanbaatar in August 2004. Also, the BOM made an agreement with People's Bank of China for payment and organized a meeting involved the banks' delegation of two countries.

The BOM newly established relationship with the Central bank of Luxemburg, and agreed to cooperate further.

The BOM invited the delegation of foreign banks and financial institutions (Bank of England, Deutsche Bundesbank, Bank of Japan, EBRD, National Bank of Canada, Rabobank, International Bank of Economic Cooperation, International Investment Bank, Rosbank) and successfully organized the 80th anniversary of the establishment of the Mongolian banking system.

In order to spread information about the real Mongolian economic, banking and financial situation, materials related to the general situation of the Mongolian economy, investment environment and the current situation of the banking and financial system were published in internationally recognized journals including the Corporate Location Magazine, The Banker's Almanac, Central Banking Publication, Global Agenda, Fortune.

The Banking Training Center at the Bank of Mongolia

The Banking Training Center's (BTC) main focus in 2004 was to organize various training sessions and seminars in a high quality manner and to organize seminars and training sessions according to its plan. In total, 1,489 staff members attended training, seminars and other activities both domestically and abroad. This is 25 percent of the entire banking system workforce.

In the reporting year, the BTC organized 38 training sessions and seminars on 40 subjects out of 32 planned domestic and foreign training sessions and seminars on 32 subjects. In total 1,449 staff members were covered by these training sessions and seminars, which is 1.8 times higher than in the previous year. Successful implementation of planned trainings and seminars is definitely related to support for the BTC and its activities from the BOM, other banks and some NBFIs, and an increased willingness to send employees on these training sessions and seminars.

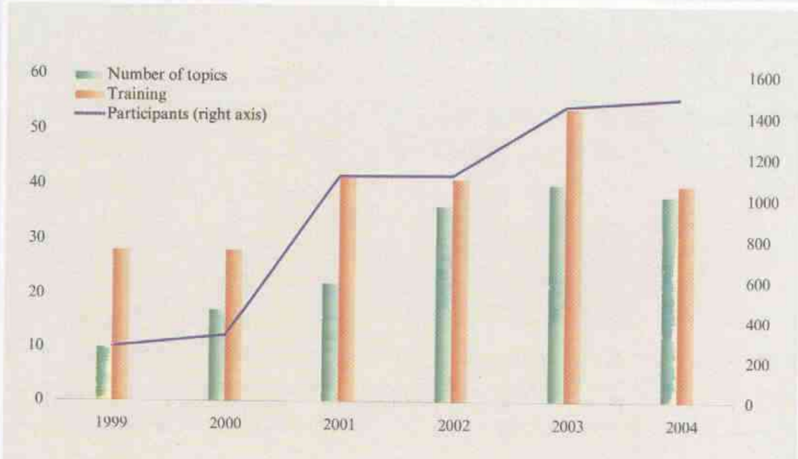
In order to organize training and seminars that would meet the needs and requirements of the banks', the BTC has used its traditional method in drawing up 2004 training plan, which is by taking advice and suggestions from banks at the beginning of the year employees and as a result of organizing training and seminars according to the plan, the outcome and activeness of banks were both high and satisfactory. 35 domestic training sessions and seminars on 37 subjects attended by 1454 staff members were organized. The numbers of subjects, sessions, and participants have increased compared to the last year, and the BTC emphasized on organizing the sessions as efficient, effective, and interesting as possible.

In the reporting year, the BTC has received and promptly fulfilled total of 49 requests and proposals from its member organizations by organizing training sessions outside of its and providing them with training premises, necessary software and equipment. Moreover, in order to give information about new financial products and services, technologies used by financial institutions of developed countries and learn from their experiences, with support from various international institution, experts from United Kingdom, Ireland, Germany, Luxemburg, Belgium, France were invited to instruct on 10 training sessions and seminars in Ulaanbaatar.

For the 80th anniversary of the banking system, the BTC successfully carried out competition with a topic «Who will teach the best?» among commercial banks with an objective of promoting participation of commercial banks, providing them with instructors, improving the efficiency of trainings and seminars, and seeking new method of organizing its activities.

Banking and financial English course was organized twice in the reporting year to improve the foreign language knowledge of bank employees and they were attended by 32 participants, 21 of whom have passed the final examinations and were awarded with certificates. Beginning from this year, we have made an agreement with Santis, an American language institute in Ulaanbaatar, to cooperate in order to improve efficiency and quality of our language courses. Thus, an intermediate financial English course taught by native speaker instructor was successfully held at our training center and it has received positive comments from participants.

Figure 54. Organized training



In 2004, three training sessions and seminars financed and supported by such international institutions as ATTF, Invent, and EBRD were organized in Germany, Luxembourg, and the United Kingdom and total of 89 people have participated. As agreed with «Invent» training and development center of Germany to implement a project with an amount of EUR 500,000 to train Mongolian banking sector employees, first 15 people have participated two month training at the Frankfurt Bank Academy. Furthermore, we have reached the final agreement with Germany Technical Cooperation (GTZ) to co-implement EUR 1 million project beginning from January 1, 2005.

The financial activity and capacity of the BTC significantly improved in 2004 compared to previous years. The punctual membership fee payment by banks is an indication of their support in our activity and is the primary condition to have continuous and proper trainings and seminars.

We have been working with a principle to expend membership fee revenue suitably and economically, and to finance expenses with revenues generated by our own activities. The total revenue during the reporting year was MNT 62.2 million, which is higher by 14.1 million or 29.3 percent from the previous year while expenditure was MNT 39.4 million, lower by 0.3 million compared to 2003. MNT 33.1 million of the total revenue was collected from The Bank of Mongolia, commercial banks, and some NBFIs as membership fee, and revenue of MNT 29.1 million was generated by BTC activities and the latter is 46.7 percent of the total revenue and 73.8 percent of the expenditure.

The activity of the Bank of Mongolia's Resident Representative Office in London, UK

The Resident Representative Office has been successfully fulfilling its main responsibilities. The Office developed cooperation with international banking and financial organizations in connection with the management and raising Mongolia's foreign reserves, study money market and stock exchange, new financial instruments, collect and provide the necessary information.

In collaboration with the EBRD and Mongolian Embassy to UK the Representative Office organized round-table with investors into the Mongolian economy. This round-table was organized on 15 April 2004 preceding the annual meeting of Directors of EBRD, in the office of EBRD in London. The Governor of the BOM, Mr. O.Chuluunbat and other Mongolian banks' management participated in round-table and introduced current reforms in the banking and financial sector, in the economy as whole, and shared with future directions and trends of the development. This activity was helpful in widening the collaboration framework with the EBRD.

The Representative Office prepared a program for training the BOM staff and enhancing their knowledge and solved the financing issues. The financing of the program would be implemented through EBRD grant Togrog 400 million worth. Within the framework of this program, 20 officers of the BOM, 30 from other Mongolian banks were trained in London and Luxembourg. Also, foreign banking specialist were invited to Mongolia, and relevant seminars were organized five times with total participation of 120 persons.

In the reporting year, the Office made contacts with about 100 banking and financial organizations, and reached to the agreement with Central banks of England, Luxembourg, Germany, Italy, Belgium on exchange of information and specialists, organization of training and seminars, long term practical training of the BOM staff, which were successfully implemented.

About 15 representatives participated in the conference organized by the Central Bank of England. Besides, the Central Bank of England organized the seminar «Risk Management» in Mongolia attended by around 20 officers from the BOM and Ministry of Finance and its affiliates.

The office became acquainted with the activity and experience of other Central banks' representative offices in London, participated in monthly and quarterly meetings introducing Mongolia.

With the assistance of the Association of German Mortgage Banks the Representative Office established the relationship with German donor organizations including GTZ. GTZ agreed to provide a technical assistance and finance the work of advisor. The request of the BOM on invitation of two advisors for one-year-period was under the decision.

The Representative Office exchanged opinion on the cooperation with the president of the Association of German Mortgage Banks. The parts discussed submission of information, training of staff, and appointment of advisors to Mongolia, and agreed to organize an introductory tour for Mongolian bankers in Germany with the purpose to share the experience. Within the framework of this activity, the essential documentation on mortgage market was collected and forwarded to the working group in Mongolia engaged in development of mortgage.

The Representative Office collaborated with internationally recognized banks on such issues as evaluation of Mongolia's investment rating, possibilities to raise the rating, Mongolia to enter the world securities market, create conditions for deriving efficient financial resources for the Mongolian economy. Barclay Bank's experts organized the seminar for the Mongolian Government's officers that served as a preparatory stage for the entering the international securities market. The same topics were discussed with the City Bank and HSBC Bank.

In order to facilitate formulation of the Program on Development of Mongolia into the International Banking and Financial Centre, the Office studied the relevant experience of other countries, materials, books, and legal acts, and submitted them to the Mongolian subsequent organizations. Furthermore, the Representative Office prepared materials on comparison of activity and experience of Belgium, Italy, Kazakhstan regarding Tax Amnesty and Capital Amnesty.

Speech of the Governor of the BOM on the high-level conference of gold mining investors in London spread out information on the Mongolian gold mining sector. As well, representatives of the Mongolian gold mining sector met with banks and financial organizations financing gold exploitation. This event was essential for them to get an access to low-cost financial resources and find strategic investors.

The Office provided a qualified assistance to the Mongolian banking institutions, Ministry of Finance, Ministry of Food and Agriculture, Mongolian Securities and Exchange Commission, Fixed Assets Registration organizations to establish links and start collaboration with the similar organizations in England.

The activity of the Office also covered compilation of information concerning effective allocating the Mongolia's international reserves, increasing their rate of return, strengthening reserves management. In addition, the Office studied new financial instruments, activity indicators and policy measures taken by banks with high rating. All this information was available for the BOM staff. In necessary cases, the Office organized meetings between the BOM and relevant foreign specialists in Mongolia. These measures had an essential contribution into the growth of the foreign reserves. Moreover, the Office provided with foreign banks' materials on the Foreign Exchange Market forecast for 2005, which were useful for formulation of the state monetary policy and foreign reserves projections.

The Representative Office conducted a survey covered the Mongolian residents living and working in England on their money transfers. The results of the survey would facilitate improving the compilation of the balance of payments, estimation of fund flows, analysis of bilateral transactions influence on the Mongolian economy and exchange rate, study of possible banking and financial services to be offered to Mongolian residents abroad.

The wide advertising on the Mongolian economy, banking and financial sector, and privatization process was made through European TV business broadcasting, Central Banking Publications, Euromoney Magazine, banking and financial associations. Materials about Mongolia were published in Euromoney Magazine and Central Banking journal.

6 DEVELOPMENT OF BANKING LEGISLATION

«The Bank of Mongolia shall establish a procedure for determination of prudential criteria and minimum requirement of risk reserves for a Cooperative which is to carry out activities with respect to receiving deposits and granting loans» stated in Paragraph 4 of Article 8 of The Cooperative Law of Mongolia were changed for «The Bank of Mongolia shall establish a procedure for determination of prudential criteria and minimum requirement of risk provisioning fund for a Cooperative which is to carry out activities with respect to receiving deposits and granting loans and undertake supervision in the implementation» by the Law on Amendment to the Cooperative Law on April 30th, 2004

A SHORT LIST OF POLICY AND TECHNICAL MEASURES IMPLEMENTED BY THE BANK OF MONGOLIA IN 2004

Date	Number	Title	Contents
01-12	15	Amendment to Regulation on Management of the State's Reserves of Foreign Currencies	For the purpose of preventing the State's reserves from risks, a regulation that the reserves should be deposited in the designated forms of assets is prescribed in the Regulation. According to the amendment, the types of assets, which are deposits and securities, held by regional or foreign banks and financial institutions that materially invested in Mongolia and had traditional relationships with it were added.
03-24	167	The Packaged Model Regulation on Accounting of Non-bank Financial Institutions	An accounting of non-bank financial institutions was revised in accordance with international principles.
03-26	169	The By-law on the Bank Training Center	Revised. The center is to support staffs who work for the Bank of Mongolia, commercial banks and other financial institutions by retraining them and develop their professional skills.

04-02	38/183	The Joint Decree on Exchanging Information	In order to implement Article 37.2 of «The Law on the State Registration of Property Ownership Rights of and Other Rights Related to It», The State general registrar and the Governor of the Bank of Mongolia issued a joint decree that the State real estate registration office is to furnish to the Bank of Mongolia information, on a given quarterly basis, on real estate properties taken as security for loans granted by commercial banks.
04-08	200	The Decree on Increase in Bank's Minimum Statutory Capital	Increases the minimum required statutory capital for commercial banks to 8 billion togrogs after considering Mongolian economic conditions and bank's payment capacities, and causes the banks to comply with it by March 31, 2006.
04-28	226	The Guideline on Calculating Loan Risks	Issued. The purpose is to improve the asset quality and the efficiency by means of calculating risks comparatively high in accuracy of each borrower of a bank and its loan pool, and of improving allocations of a bank's own assets.
04-28	227	The Regulation on Evaluation of Prudential Ratio Criteria of Banking Activities and Supervision	Revised to the effect that it would cause commercial banks to calculate prudential ratio criteria correctly specified in the Regulation and possible risks that may affect banking activities by evaluating factors that influenced its changes and motivations and to take preventive measures.
06-17	332	The Regulation on Accounting of the Bank of Mongolia	Revised in order to refine the accounting of the Bank of Mongolia and to cause international standards to be observed.
07-08	356	The Regulation on Accepting Cashes from Commercial Banks	Revised for the purpose of accelerating cash flows in transactions and ensuring that its safekeeping and safety are reliable.
07-15	370	Amendment to the Regulation on the Legal Status of State Supervisor of the Bank of Mongolia	Amendments with respect to state accounting supervisor of the Bank of Mongolia and «State supervisor council of the Bank of Mongolia» were made in the Regulation.
09-06	446	The Bank of Mongolia Branch Charter	Revised in order to improve operations of the Bank of Mongolia branches in the countryside including state monetary policy, supervision, inter-branch transactions, banknote issuing, as well as activities of Credit information bureau.

09-09	459/207	The Regulation on Asset Classification, Establishing of and Using of Asset Risk Reserve	Revised by a joint decree issued by Minister of the Finance and Economic and Governor of the Bank of Mongolia, for commercial banks and non-bank financial institutions to classify loans, guarantees, letters of credit and other liabilities, securities, real estate properties owned by and receivables, and to create asset risk provisioning funds for other possible liabilities arising from loan repayments and to use them.
11-05	579	The Guideline on Keeping the Records of Non-bank Financial Institutions	Issued for the purpose of elaborating procedures of non-bank financial institutions such as collecting documents, statutory acts and research materials, and enriching, updating, storing, protecting and producing of such information, and of causing secrecy to be kept by.
11-11	592	The Regulation on Methodology to Plan the Balance of Payments of Mongolia	Issued in order to develop the procedures such as consolidating all the transactions of payment made with foreign countries in the period under review, determining the methods for combining statistic indicators reflecting in the content of external balance of payments, preparation of the balance and reporting on currency circulation.
12-21	648	The Packaged Model Regulation on Non-bank Financial Activities	Issued in order to help Non-bank financial institutions define the necessary issues that have to be paid attention to based on their characteristics, certain circumstances at a given time and prospects while carrying out the non-bank financial activities determined in the Law on Non-bank Financial Activities and organize their activities by calculating possible risks.

AUDITOR'S REPORT

Board of Directors' responsibility statement

The Bank's Board of Directors is responsible for the preparation of the financial statements.

The financial statements of Bank of Mongolia have been prepared to comply with International Financial Reporting Standards. The Board of Directors is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2004 and the results and cash flows for the year then ended on that date.

The Board of Directors have responsibility for ensuring that the Bank keeps proper accounting records which disclose with resonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply with the requirements set out in Note 3 and Note 4 thereto.

The Board of Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Board of Directors consider that, in preparing the financial statements on pages 3 to 31, they have used appropriate policies, consistently applied and supported by reasonable and prudent judgement and estimates, and that all applicable accounting standards have been followed.

Signed in accordance with a resolution of the Board of Directors:

O. Chuluunbat
Governor, Bank of Mongolia

Ulaan Baatar, Mongolia

23 June 2005

Report of the auditors to the members of Bank of Mongolia

We have audited the financial statements of Bank of Mongolia on pages 3 to 31. The preparation of the financial statements is the responsibility of the Bank's Board of Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements on pages 3 to 31 present fairly, in all material respects, the state of affairs of Bank of Mongolia as at 31 December 2004 and the results and cash flows for the year then ended on that date in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we wish to highlight that the Bank had not complied with Article 18 and 23 of the Law on Central Bank as disclosed in Note 15 and 16 to the financial statements.

The comparative figures were audited by another firm of auditors as we were appointed as auditors only for the current year's financial statements. Accordingly, we do not express any opinion on the comparative figures. The prior year auditors report dated 5 April 2004 expressed a qualified opinion in relation to noncompliance with the Law on Central Bank.

KPMG

KPMG

Kuala Lumpur, Malaysia

23 June 2005

BANK OF MONGOLIA

Income statement for the year ended 31 December 2004

	Note	2004 MNT 'million	Restated 2003 MNT 'million
Interest income	5	4,651	6,944
Interest expense	6	(7,928)	(7,483)
Net interest income/(expense)		(3,277)	(539)
Gold gain/(loss), net		5,815	(11,032)
Foreign currency gains, net		8,807	20,120
Other operating income		1,262	843
Non interest income		15,884	9,931
Total income		12,607	9,392
Impairment losses	7	-	311
Administrative expenses		(5,151)	(3,330)
Other operating expenses	9	(4,215)	(7,027)
Profit / (Loss) for the year		3,241	(654)

The notes set out on pages 8 to 31 form an integral part of, and should be read in conjunction with, these financial statements.

BANK OF MONGOLIA

Balance sheet as at 31 December 2004

	Note	2004 MNT 'million	Restated 2003 MNT 'million
ASSETS			
Cash in hand	10	12,251	13,234
Gold bullion and precious metals	11	22,583	30,978
Investment in foreign securities - held-to-maturity	12	61,245	77,370
Deposits and placements with foreign financial institutions	13	252,503	220,820
Loans and advances to local financial institutions	14	22,203	12,992
Government securities		-	4,000
Advances to the Ministry of Finance and Economy	15	158,732	215,054
Advances to companies	16	5,926	10,586
Other assets	17	10,152	12,720
Property, plant and equipment	18	16,122	14,370
TOTAL ASSETS		561,717	612,124
LIABILITIES AND CAPITAL FUNDS			
Cash in circulation		168,521	152,827
Debts issued	19	69,247	75,734
Liabilities due to foreign parties	20	164,499	192,340
Deposits of government agencies	21	53,026	92,026
Deposits of local financial institutions	22	66,384	47,969
Other liabilities	23	11,249	20,678
TOTAL LIABILITIES		532,926	581,574
CHARTER FUND AND RESERVES			
Charter Fund	24	5,000	5,000
Accumulated losses		(5,475)	(1,946)
Other reserves	25	29,266	27,496
TOTAL EQUITY		28,791	30,550
FUNDS EMPLOYED		561,717	612,124

The notes set out on pages 8 to 31 form an integral part of, and should be read in conjunction with, these financial statements.

BANK OF MONGOLIA

Cash flow statement for the year ended 31 December 2004

	2004 MNT 'million	Restated 2003 MNT 'million
Cash flows from operating activities		
Profit for the year	3,241	(654)
Adjustments for:-		
Property, plant and equipment written off	639	846
Loss on disposal of property, plant and equipment	55	25
Depreciation	600	527
Operating profit before working capital changes	4,535	744
(Increase) / Decrease in operating assets:-		
Gold bullion and precious metal	8,395	44,389
Investment in foreign securities	16,125	(26,049)
Deposits and placements with foreign financial insitutions	(31,683)	33,035
Loans and advances to local financial institutions	(9,211)	(4,666)
Government securities	4,000	(4,000)
Advances to Ministry of Finance and Economy	56,322	(175,247)
Advances to companies	4,660	(10,421)
Other assets	2,568	593
(Increase) / Decrease in operating liabilities:-		
Cash in circulation	15,694	18,184
Debts issued	(6,487)	14,924
Liabilities due to foreign parties	(27,841)	52,402
Deposits of government agencies	(39,000)	72,935
Deposits of local financial institutions	18,415	3,814
Other liabilities	(9,429)	(12,302)
Net cash generated from operating activities	7,063	8,335
Cash flow from financing activities		
Transfer to State Budget	(5,000)	(6,628)
Net cash used in financing activities	(5,000)	(6,628)

BANK OF MONGOLIA

Cash flow statement for the year ended 31 December 2004 (continued)

	2004 MNT 'million	Restated 2003 MNT 'million
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	2	6
Purchase of property, plant and equipment	(3,048)	(2,250)
Net cash used in investing activities	(3,046)	(2,244)
Net decrease in cash in hand	(983)	(537)
Cash in hand brought forward	13,234	13,771
Cash in hand carried forward	12,251	13,234

The notes set out on pages 8 to 31 form an integral part of, and should be read in conjunction with, these financial statements.

BANK OF MONGOLIA

Statement of changes in equity for the year ended 31 December 2004

	Note	Charter Fund MNT' million	Retained earnings/ (Accumulated losses) MNT' million	General Reserve MNT' million	Revaluation Reserve MNT' million	Total MNT' million
At 1 January 2003						
- as previously stated		5,000	6,628	3,404	19,677	34,709
- prior year adjustments	31		3,123			3,123
As restated		5,000	9,751	3,404	19,677	37,832
Transfer to State Budget		-	(6,628)	-	-	(6,628)
Loss for the year (restated)	31	-	(654)	-	-	(654)
Unrealised net gain transferred to reserve		-	(7,436)	-	7,436	-
Transfer from revaluation reserve			3,021		(3,021)	
At 31 December 2003		5,000	(1,946)	3,404	24,092	30,550
At 31 December 2003						
- as previously stated		5,000	1,943	3,404	27,113	37,460
- prior year adjustments	31		(3,889)		(3,021)	(6,910)
As restated		5,000	(1,946)	3,404	24,092	30,550
Transfer to State Budget	26	-	(5,000)	-	-	(5,000)
Profit for the year		-	3,241	-	-	3,241
Unrealised net gain transferred to reserve		-	(4,973)	-	4,973	-
Transfer from revaluation reserve			4,799		(4,799)	-
Transfer to General Reserve		-	(1,596)	1,596	-	-
2At 31 December 2004		5,000	(5,475)	5,000	24,266	28,791
				Note 25	**Note 25**	

BANK OF MONGOLIA
Notes to the financial statements

1. Corporate information

Bank of Mongolia, the Central Bank of Mongolia (the «Bank»), is established under a resolution by the Mongolian Government dated 2 June 1924, and is located at Baga Toiruu 9, Ulaanbaatar 46, Mongolia.

The Bank constitutes a single business, all conducted in Mongolia with no branches or operations abroad other than a representative office in London, England.

The financial statements of the Bank for the year ended 31 December 2004 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 23 June 2005 .

2. Main responsibilities

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

The Bank 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 regulates the relationship between the Mongolian Togrog and foreign currencies on behalf of the State. To this end, the Bank 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 in foreign currency denominated securities, deposits markets and in the spot and forward markets.

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

3. Basis of preparation

The Bank's financial statements have been prepared so as to present fairly the financial position of the Bank, and its results and cash flows and in accordance with International Financial Reporting Standards («IFRS») issued and adopted by the International Accounting Standards Board («IASB»), and interpretations issued by the Standing Interpretations Committee of the IASB, insofar as they are appropriate to a central bank.

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 financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements. The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous years.

4. Significant accounting policies

(a) Interest income and expense

Interest income and expense are recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(b) Foreign currency

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 daily. Foreign exchange differences arising on translation are recognised in the Income Statement and subsequently transferred to a reserve fund known as Revaluation Reserve.

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 liabilities, or on the date the assets or liabilities were revalued.

Transactions in foreign currencies are translated into Togrog at the foreign exchange rates ruling at the date of transaction. Any foreign exchange difference arising on translation differences are recognised in the Income Statement and is subsequently transferred to the Revaluation Reserve.

(c) Gold bullion and precious metals

Gold bullion is disclosed in the balance sheet at its fair value and revaluation is performed daily. The fair value is determined by taking into consideration the market value of gold and its trend, the strength of the Mongolian Togrog and its anticipated appreciation or depreciation of the currency. Translation gain or loss is recognised in the Income Statement and is subsequently transferred to Revaluation Reserve.

Gold and silver ore and coins and cultural valuables are stated at the lower of cost and net realisable value.

4. Significant accounting policies (continued)

(d) Financial instruments

(i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include derivative contracts that are not designated as effective hedging instruments.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor. Originated loans and receivables comprise loans and advances other than bonds purchased at original issuance.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain debt investments.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

(ii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all trading instruments and all available-for-sale assets are measured at fair value.

All non-trading financial instruments, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

4. Significant accounting policies (continued)

(d) Financial instruments (continued)

(iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When the financial assets are sold, collected or otherwise disposed of the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of trading instruments are recognised in the income statement.

(v) Specific instruments

Deposits and placements with foreign financial institutions
Deposits and placements with foreign financial institutions are classified as held-to-maturity assets.

Investments

Debt investments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

Loans and advances

Loans and advances originated by the Bank are classified as originated loans and receivables. Loans and advances are reported net of allowances to reflect the estimated recoverable amounts (refer accounting policy 4(i)).

Non-trading financial liabilities

Non-trading financial liabilities include debts issued, deposits from government agencies and from local financial institutions, liabilities due to foreign parties and other amounts payable. Non-trading financial liabilities are initially stated at cost. Subsequent to the initial recognition, they are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of income over the period of the instrument on an effective interest basis.

(e) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

4. Significant accounting policies (continued)

(f) Repurchase agreements

The Bank enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in investment in foreign securities. The receivables are shown as collateralised by the underlying security. Assets sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the Bank's appropriate accounting policy. The proceeds from the sale of the assets are reported as liabilities in the balance sheet.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest.

(g) Property, plant and equipment

(i) Cost

Property, plant and equipment are stated at cost or at revalued amount less accumulated depreciation and impairment losses.

The Bank had revalued its buildings in 2002 and the revaluation surplus has been included in the revaluation reserve. The revaluation was based on a valuation performed by a professional valuer.

(ii) Depreciation

The straight line method is used to write off the cost of the assets over the term of their estimated useful lifes at the following principal annual rates:

Building	2.4% - 6.0%
Furniture and office equipment	10.0% - 12.5%
Computers	12.5% - 20.0%
Motor vehicles	12.5% - 16.7%

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

Upon disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

4. Significant accounting policies (continued)

(h) Impairment

The Bank's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Originated loans and advances

Loans and advances are presented net of allowances for uncollectibility. The allowances relates to identified loans and advances at risk and are raised when it is considered that the recovery of the outstanding balance is in serious doubt. It is the amount necessary to reduce the carrying value of the loans and advances to its expected net realisable value.

Increases in the allowance account are recognised in the statement of income. When a loan is known to be uncollectible, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

Assets other than loans and advances

The recoverable amount is the greater of the asset's net selling price and value in use. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All reversals of impairment are recognised in the statement of income.

(i) Taxation

In accordance with the Economic Entity and Organisation Income Tax Law of Mongolia, the Bank is exempted from income taxes.

(j) Employee Benefits

Employee benefits include statutory social insurance payments to the State Social Insurance Scheme. Contributions to this defined contribution plan are recognised as an expense in the statement of income as incurred.

5. Interest income

	2004 MNT 'million	2003 MNT 'million
Deposits and placements with foreign financial institutions	2,399	3,707
Investment in foreign securities	1,176	2,398
Government securities	437	521
Loans and advances to local financial institutions	639	318
	4,651	6,944

6. Interest expense

	2004 MNT 'million	2003 MNT 'million
Debts issued	6,186	4,569
Deposits of government agencies	1,225	2,739
Liabilities due to foreign parties	275	146
Deposits of local financial institutions	242	29
	7,928	7,483

7. Impairment losses

	2004 MNT 'million	2003 MNT 'million
Impairment losses written back	-	(311)

8. Employee information

	2004 MNT 'million	2003 MNT 'million
Salaries and employee benefits	693	522
Directors' remuneration	33	37
Contribution to Social Insurance	212	152

The number of employees as at year end is as follows:

	2004 MNT 'million	2003 MNT 'million
Governor and Directors	37	41
Staffs	390	390
	427	431

9. Other operating expenses

	2004 MNT 'million	2003 MNT 'million
Cost of bank notes	4,215	7,027

10. Cash in hand

	2004 MNT 'million	2003 MNT 'million
Cash denominated in local currency	47	55
Cash denominated in foreign currencies	12,204	13,179
	12,251	13,234

11. Gold bullion and precious metals

	2004 MNT 'million	2003 MNT 'million
Gold bullion	16,998	23,317
Gold and silver ore	2,764	4,874
Coins and cultural valuables	2,821	2,787
	22,583	30,978

12. Investment in foreign securities - held-to-maturity

	2004 MNT 'million	2003 MNT 'million
Promissory notes	-	37,775
Repurchase agreement	49,206	39,595
Bond	12,039	-
	61,245	77,370

13. Deposits and placements with foreign financial institutions

	2004 MNT 'million	2003 MNT 'million
Short term time deposits	158,430	132,161
Holdings of Special Drawing Rights	86,823	79,921
Placements repayable on demand	2,026	3,850
World Bank subscription	1,204	1,326
Other subsciptions	4,020	3,562
	252,503	220,820

Short term time deposits

The short term time deposits are denominated in USD with maturity periods of up to 180 days and bear interest at annual rates ranging from 2.27% to 2.40% (2003: 1.25% to 4.00%).

Holdings of Special Drawing Rights

This balance represents the Bank's holdings of Special Drawing Rights in relation to its subscription to the IMF. This amount is matched by a corresponding liability (see Note 20) and is non-interest bearing.

Placements repayable on demand

This represents current account deposits with foreign central banks and other financial institutions which are non interest bearing.

World Bank subscription

This represents the deposit and quota at the World Bank as part of the condition to be a member of the World Bank group. This amount is matched by a corresponding liability (see Note 20) and is non-interest bearing.

Other subscriptions

This represents the subscription made in SWIFT and other financial insitutions.

14. Loans and advances to local financial institutions

	2004 MNT 'million	2003 MNT 'million
Loans in foreign currency	13,857	7,822
Loans in local currency	8,344	4,736
Claims on a financial institutions	3,070	3,502
Refinancing loan	130	130
Gross loans and advances	25,401	16,190
Less: Allowance for loans losses	(3,198)	(3,198)
	22,203	12,992

Loans in foreign currency

The loans in foreign currency were disbursed to three local commercial banks, for the onward transmission to Mongolian enterprises. The funding was made available under two separate programmes by the German Government to promote small and medium scale companies (see Note 20). The loans under both programmes bear interest at the rate of 1.75% (2003: 1.75%) per annum and are not backed by any securities. The loans under both programmes are disbursed in various disbursements to the three commercial banks according to the needs of the borrowers of the relevant commercial banks. Accordingly, the repayment terms for each disbursed loan varies according to the date of disbursement.

Loans in local currency

The loan in local currency were disbursed to various commercial banks in Mongolia, for the onward transmission to Mongolian enterprises. The funding was made available under two separate programmes by the Asian Development Bank to create more job opportunities for the people of Mongolia and to develop the agricultural sector in the country. The loans under the first programme bears interest at the rate of 10% (2003: 10%) per annum and the repayment terms for each disbursed loan varies according to the date of disbursement. The loans under the second programme bears interest at the rate of 5.5% (2003: 5.5%) per annum with the maturity of one year for each loan disbursed.

Claims on a financial institution

These claims are in relation to payments made by the Bank to settle guarantees issued in favour of a local bank which has since been ruled insolvent. The loan has been fully provided for.

Refinancing loan

This loan was given to a bank in 1996, which has since been liquidated. The loan has been fully provided for.

15. Advances to the Ministry of Finance and Economy («MOFE»)

	2004 MNT 'million	2003 MNT 'million
Advances to government	105,300	160,216
Poverty Reduction and Growth Facility Loan	53,432	54,838
	158,732	215,054

Advances to government

In accordance with a resolution from the Mongolian Parliament, the Bank had provided advances to the government for the purpose of the full settlement of discounted debts to the Russian government. These advances were made in two portions of USD37 million and MNT117 billion, respectively. The first portion of the loan was fully repaid in 2004. The second portion is to be repaid in ten equal instalments of MNT11.7 billion each commencing from 15 December 2004 and the last instalment is payable on 15 December 2013.

Article 18 of the Law on Central Bank outlines the restriction for granting credit to the Government which includes among others, the total amount of balance outstanding shall not exceed 10% of the annual average domestic budget revenue for the preceeding three years. As at balance sheet date, the advances made to the Government exceeded the 10% limit. The Bank is therefore in breach of Article 18 of the Law on Central Bank.

Poverty Reduction and Growth Facility Loan

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 Note 20. The loans have a maturity period of 10 years and carry an annual interest at 0.5% (2003: 0.5%).

16. Advances to companies

	2004 MNT 'million	2003 MNT 'million
Loans to local companies	-	556
Other receivables	5,926	10,586
	5,926	11,142
Less: Impairment losses	-	(556)
	5,926	10,586

Movement in the impairment losses is as follows:-

	2004 MNT 'million	2003 MNT 'million
Balance at 1 January	556	867
Written back	-	(311)
Written off	(556)	-
Balance at 31 December	-	556

Loans to local companies amounting to MNT556,234,017 (2003: nil) were written-off against the impairment losses during the year.

16. Advances to companies (continued)

Other receivables mainly comprise of prepayments for gold purchases made to several mining companies amounting to MNT3.182 billion (2003: MNT4.099 billion) and receivables from mining companies that have defaulted in forward and option contracts entered into with the Bank which amounted to MNT2.744 billion (2003: MNT6.487 billion). The receivables represent the Bank's losses incurred under the defaulted contracts claimable from the mining companies.

These outstanding balances has resulted in a breach of Article 23 of the Law on Central Bank which states that it is prohibited for the Bank to, among others, take deposits from or extend credit or provide settlement services to individuals or legal persons other than the Government and banks.

17. Other assets

	2004 MNT 'million	2003 MNT 'million
Derivative financial instruments	7,975	12,213
Others	2,222	574
	10,197	12,787
Less: Impairment losses	(45)	(67)
	10,152	12,720

Movement in the impairment losses is as follows:-

	2004 MNT 'million	2003 MNT 'million
Balance at 1 January	67	67
Written off	(22)	-
Balance at 31 December	45	67

Derivative financial instruments represents unrealised revaluation gains in relation to the Bank's derivative financial instruments, which includes gold forward and option contracts.

Others consists of prepayments, advances to staff, consumable materials and stationery supplies.

18. Property, plant and equipment

	Buildings MNT'million	Furniture and office equipment MNT'million	Computers MNT'million	Motor vehicles MNT'million	Capital work in progress MNT'million	Total MNT'million
Cost/Valuation						
At 1 January 2004	10,875	633	902	637	3,011	16,058
Additions	22	419	169	357	2,081	3,048
Transfers	3,877	170	-	-	(4,047)	-
Disposals	(108)	(15)	(8)	(18)	-	(149)
Write-off	(12)	(7)	(83)	(140)	(503)	(745)
At 31 December 2004	14,654	1,200	980	836	542	18,212
Representing:						
At cost	4,274	1,199	980	836	542	7,831
At valuation	10,380	-	-	-	-	10,380
	14,654	1,199	980	836	542	18,211
Accumulated depreciation						
At 1 January 2004	787	235	430	236	-	1,688
Charge for the year	255	88	165	92	-	600
Disposals	(9)	(9)	(59)	(15)	-	(92)
Write-off	-	(5)	(23)	(78)	-	(106)
At 31 December 2004	1,033	309	513	235	-	2,090
Net Book Value						
2At 31 December 2004	13,621	891	467	601	542	16,122
At 31 December 2003	10,088	398	472	401	3,011	14,370
Depreciation charge for the year ended 31 December 2003	283	53	148	43	-	527

Revaluation

Certain buildings are stated at Directors' valuation based on the open market basis conducted in 27 May 2002.

Had the revalued buildings been carried at historical cost, the net book value of the buildings that would have been included in the financial statements of the Bank as at 31 December 2004 would have been MNT5,155 million (2003: MNT5,394 million).

19. Debts issued

This represents Bank of Mongolia bills issued by the Bank to local financial institutions. Such bills have maturities between one week to three months (2003: one week to three months), and bear interest ranging from 3.77% to 15.96% (2003: 9.21% to 11.92%) per annum.

20. Liabilities due to foreign parties

	2004 MNT 'million	2003 MNT 'million
International Monetary Fund («IMF»)		
- Loans received under PRGF	53,432	57,674
- Allocation of Special Drawing Rights	86,563	79,775
Loans received from the German government	14,380	9,618
Loans from Asian Development Bank («ADB»)	7,863	4,547
Subscription to World Bank and IDA	2,110	1,784
Aids received from United Nations Development Programme	151	151
Time deposit placed by Bank of International Settlements, Switzerland	-	29,204
Obligation on repurchase agreement	-	9,587
	164,499	192,340

International Monetary Fund («IMF»)

(i) Loans received under Poverty Reduction and Growth Facility («PRGF»)

Loans received under the PRGF (formerly known as Enhanced Structural Adjustment Facility) are loans granted by the IMF with a maturity period of 10 years and bear interest at 0.5% (2003: 0.5%) per annum. These loans are disbursed under a three-year arrangement, subject to observance of performance criteria and completion of programme reviews. The loans and repayments are denominated in SDR's.

(ii) Allocation of Special Drawing Rights («SDR»)

IMF member countries are allocated SDR in proportion to their subscriptions to the IMF. The allocation represents the holdings of currency by IMF, against which assets are received in SDR from IMF. The total currency holdings by IMF as at year end amounted to SDR50.976 million (2003: SDR46.139 million), equivalent to MNT86,563 million (2003: MNT79,775 million).

Loans received from the German government

Loans from the Government of Germany under the small and medium enterprise are made available under two separate programmes. The loans under both programmes are denominated in Euro with a tenure of 40 years. The loan under the first programme started in 1995 and bears interest of 1% per annum. The repayment of loan principal will commence in 2005. The loan under the second programme started in 2002 and bears interest at 0.75% per annum. The repayment of the loan principal will commence in 2012.

20. Foreign currency liabilities (continued)

Loans from Asian Development Bank («ADB»)

The loans from ADB is mainly for purposes of alleviating poverty in Mongolia, to develop and promote private enterprises, to provide training and consultancy to the Government, non-governmental organisations and local commercial banks and for the improvement of the agricultural sector. The loans bear interest ranging from 1% to 1.5% (2003: 1% to 1.5%) per annum and have tenures ranging from 25 to 30 years.

Subscription to World Bank and International Development Agency («IDA»)

The balance represents the Bank's subscription obligations to World Bank and IDA. The subscriptions are non-interest bearing and have no defined repayment terms.

Aid received from United Nations Development Programme

This represents 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. The aid received is non-interest bearing with no fixed term of repayment.

Time deposit placed by Bank of International Settlements, Switzerland

The time deposit equivalent to Euro20 million matured on 10 March 2004 and bears interest at 2.19% per annum.

21. Deposits of government agencies

	2004 MNT 'million	2003 MNT 'million
State budget and other government accounts	999	7,021
MOFE accounts	52,027	85,005
	53,026	92,026

State budget and other government accounts

This relates to the local currency deposit accounts of government agencies maintained with the Bank. These deposits are repayable on demand and are non-interest bearing (2003: 2.3% to 4.7% per annum).

MOFE accounts

This relates to various deposits accounts that MOFE maintained with the Bank. These deposits are repayable on demand and are non-interest bearing.

22. Deposits of local financial institutions

This consists of various deposit accounts and obligatory reserves of local financial institutions maintained with the Bank, calculated as a percentage of their eligible liabilities to deposit holders.

23. Other liabilities

	2004 MNT 'millionr	2003 MNT 'million
Derivative financial instruments	9,345	17,138
Social development fund	1,033	2,423
Other payables	871	1,117
	11,249	20,678

Derivative financial instruments represents unrealised revaluation losses in relation to the Bank's derivative financial instruments, which includes gold forward and option contracts.

24. Charter Fund

	2004 MNT 'million	2003 MNT 'million
Charter fund	5,000	5,000

The Bank is wholly owned by the Government of Mongolia. The Charter Fund represents the capital of the Bank.

25. Other reserves

Other reserves includes General Reserve and Revaluation Reserve.

In accordance with the Law on Central Bank (Bank of Mongolia), at least 40% of the Bank's net income is allocated to its General Reserve Fund with the balance transferred to the State Budget account. As such, the Bank had allocated MNT1.596 billion to the General Reserve during the year, representing 52% of its accumulated net income.

The Revaluation Reserve is used to record unrealised revaluation gains or losses on revaluation of financial assets and liabilities and property, plant and equipment.

26. Transfer to State Budget

Article 38 of the Law on Central Bank which stats that the net income of the Bank of Mongolia shall be allocated according to the following priorities, namely that:
- no less than 40% of net income shall go to the General Reserve Fund; and
- any balance of net income after deducting the above amount shall be transferred to the State Budget.

In July 2004, the Bank transferred MNT5 billion, representing the whole amount of retained profits per the management accounts of the Bank as at 31 December 2003, to the State Budget. The restated retained earnings of the Bank as at 31 December 2003 amounts to a deficit of MNT1.946 billion. As such, the amount transferred to the State Budget is in excess of available retained profits.

27. Commitments and contingencies

Letters of credit	2004 MNT 'million	2003 MNT 'million
Letters of credit	41,783	64,586

All the Bank's outstanding letter of credits are issued for the benefit of MOFE and government agencies without collateral.

28. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is wholly owned by the Government of Mongolia.

Apart from the remuneration paid to the Governor and the members of the Board of Directors totalling MNT33.0 million (2003 : MNT37.0 million), there were no other related party transactions during the year.

29. Financial risk management policies

Financial risk management objectives and policies

The Bank of Mongolia manages its interest rate, credit, market and liquidity risks through regulations set by the Board of Directors to ensure all operations of the Bank are conducted in a prudent manner.

Risk pertaining to foreign reserves

Priority is given to those risks pertaining to foreign reserves such as credit, market and liquidity risks. Measures for regulating, monitoring, managing and minimising these risks are covered by «Guidelines on Reserve Management» as highlighted below:

a) To minimise credit risk:

- Foreign reserves are placed as demand deposits with central banks from developed countries such as USA, Japan, Germany, United Kingdom and Switzerland and in time deposits with foreign commercial banks that carry AAA or AA rating as well as in government securities of the above countries and in securities issued by international and regional financial institutions.

29. Financial risk management policies (continued)

a) To minimise credit risk (continued):

- Occasionally, parts of the reserves are placed with institutions with lower ratings who are long-term traditional partners. In such cases, careful analysis is conducted, and proposals are submitted to the Governor for approval.

- Each quarter a list of international financial institutions and their limits for each individual institution is submitted for approval to the Board of Directors and the Governor.

b) To monitor and control market risk:

- General structure of reserve assets is approved annually.
- Overall limit for open positions in foreign exchange and gold is approved quarterly.
- Limit for open positions in individual financial assets is approved quarterly.
- Stop-loss limits for dealers is approved quarterly.

c) To manage liquidity risk of foreign reserves

- Minimum level of foreign currency to be held in cash and in demand deposits is established.
- Minimum and maximum amount of assets to be held for fixed period of time is established.
- Maturity date for assets is set for liquidity.

29. Financial risk management policies (continued)

Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's management sets limits on the level of exposure by currencies (primarily USD). The Bank's exposure to foreign currency exchange rate risk is as follows:

	2004 (MNT'million)				
	MNT	USD	SDR	Other currencies	Total
Assets					
Cash in hand	47	4,675	-	7,529	12,251
Investment in foreign securities	-	61,245	-	-	61,245
Deposits and placements with foreign financial institutions	87,901	158,682	50	5,870	252,503
Loans and advances to local financial institutions	8,344	2	-	13,857	22,203
Advances to the Ministry of Finance and Economy	105,300	-	53,432	-	158,732
Advances to companies	50	5,876	-	-	5,926
Other assets	516	9,561	-	75	10,152
	202,158	240,041	53,482	27,331	523,012
Liabilities					
Cash in circulation	(168,521)	-	-	-	(168,521)
Debts issued	(69,247)	-	-	-	(69,247)
Liabilities due to foreign parties	(88,747)	(7,939)	(53,432)	(14,381)	(164,499)
Deposits of government agencies	(42,805)	(10,171)	(50)	-	(53,026)
Deposits of local financial institutions	(31,169)	(30,717)	-	(4,498)	(66,384)
Other liabilities	(1,563)	(9,686)	-	-	(11,249)
	(402,052)	(58,513)	(53,482)	(18,879)	(532,926)
Net position	(199,894)	181,528	-	8,452	(9,914)

29. Financial risk management policies (continued)

Currency risk (continued)

	2003 (MNT'million)				
	MNT	USD	SDR	Other currencies	Total
Assets					
Cash in hand	55	11,102	-	2,077	13,234
Investment in foreign securities	-	77,370	-	-	77,370
Deposits and placements with foreign financial institutions	81,131	135,860	171	3,658	220,820
Loans and advances to local financial institutions	12,987	-	-	5	12,992
Government securities	4,000	-	-	-	4,000
Advances to the Ministry of Finance and Economy	160,216	-	54,838	-	215,054
Advances to companies	-	10,586	-	-	10,586
Other assets	507	12,213	-	-	12,720
	258,896	247,131	55,009	5,740	566,776
Liabilities					
Cash in circulation	(152,827)	-	-	-	(152,827)
Debts issued	(75,734)	-	-	-	(75,734)
Liabilities due to foreign parties	(81,709)	(14,134)	(57,674)	(38,823)	(192,340)
Deposits of government agencies	(73,102)	(18,878)	(46)	-	(92,026)
Deposits of local financial institutions	(27,961)	(16,619)	-	(3,389)	(47,969)
Other liabilities	(3,540)	(17,138)	-	-	(20,678)
	(414,873)	(66,769)	(57,720)	(42,212)	(581,574)
Net position	(155,977)	180,362	(2,711)	(36,472)	(14,798)

29. Financial risk management policies (continued)

The following table indicates the effective interest rates and the periods in which the financial assets and liabilities reprice or mature, whichever is earlier, as at 31 December 2004.

(MNT million)	Less than 3 months	3 to 6 months	6 months to 1 year	1 - 5 years	> 5 years	Non-interest sensitive	Total	Effective interest rate
Assets								
Cash in hand	-	-	-	-	-	12,251	12,251	-
Investment in foreign securities	49,206	-	-	12,039	-	-	61,245	1.96%
Deposits and placements with foreign financial institutions	145,121	13,303	-	-	-	94,079	252,503	2.33%
Loans and advances to local financial institutions	-	-	5,527	16,676	-	-	22,203	3.70%
Advances to the Ministry of Finance and Economy	2,087	1,044	2,087	44,089	4,125	105,300	158,732	-
Advances to companies	-	-	-	-	-	5,926	5,926	-
Other assets	-	-	-	-	-	10,152	10,152	-
	196,414	14,347	7,614	72,804	4,125	227,708	523,012	
Liabilities								
Cash in circulation	-	-	-	-	-	(168,521)	(168,521)	-
Debts issued	(69,247)	-	-	-	-	-	(69,247)	15.64%
Liabilities due to foreign parties	(2,143)	(1,044)	(5,013)	(52,583)	(14,892)	(88,824)	(164,499)	0.65%
Deposits of government agencies	-	-	-	-	-	(53,026)	(53,026)	-
Deposits of local financial institutions	(2,238)	-	-	-	-	(64,146)	(66,384)	22.58%
Other liabilities	-	-	-	-	-	(11,249)	(11,249)	-
	(73,628)	(1,044)	(5,013)	(52,583)	(14,892)	(385,766)	(532,926)	
Net position	122,786	13,303	2,601	20,221	(10,767)	(158,058)	(9,914)	
Accumulated gap	**122,786**	**136,089**	**138,690**	**158,911**	**148,144**	**853**		

The expected maturity dates of the Bank's financial assets and liabilities do not differ significantly from the contractual repricing dates, other than the advances to the Ministry of Finance and Economy which is expected to mature in 6 months to 1 year (MNT11.7 million), 1 - 5 years (MNT58.5 million) and more than 5 years (MNT35.1 million).

29. Financial risk management policies (continued)

The following table indicates the effective interest rates and the periods in which the financial assets and liabilities reprice or mature, whichever is earlier as at 31 December 2003.

	Less than 3 months	3 to 6 months	6 months to 1 year	1 - 5 years	> 5 years	Non-interest sensitive	Total	Effective interest rate
Assets								
Cash in hand	-	-	-	-	-	13,234	13,234	-
Investment in foreign securities	5,840	-	31,935	-	-	39,595	77,370	1.74%
Deposits and placements with foreign financial institutions	132,161	-	-	-	-	88,659	220,820	1.33%
Loans and advances to local financial institutions	-	-	4,736	8,256	-	-	12,992	3.98%
Government securities	-	-	4,000	-	-	-	4,000	14.63%
Advances to the Ministry of Finance and Economy	2,565	3,093	3,528	27,856	17,796	215,054	269,892	-
Advances to companies	-	-	-	-	-	13,607	13,607	-
Other assets	-	-	-	-	-	12,720	12,720	-
	140,566	3,093	44,199	36,112	17,796	382,869	624,635	
Liabilities								
Cash in circulation	-	-	-	-	-	(152,827)	(152,827)	-
Debts issued	(75,734)	-	-	-	-	-	(75,734)	10.05%
Liabilities due to foreign parties	(2,581)	(32,297)	(18,233)	(28,339)	(29,181)	(81,709)	(192,340)	1.50%
Deposits of government agencies	-	-	-	(4,091)	-	(87,935)	(92,026)	4.67%
Deposits of local financial institutions	-	-	-	-	-	(47,969)	(47,969)	-
Other liabilities	-	-	-	-	-	(20,678)	(20,678)	-
	(78,315)	(32,297)	(18,233)	(32,430)	(29,181)	(391,118)	(581,574)	
Net position	62,251	(29,204)	25,966	3,682	(11,385)	(8,249)	43,061	
Accumulated gap	62,251	33,047	59,013	62,695	51,310	54,446		

The expected maturity dates of the Bank's financial assets and liabilities do not differ significantly from the contractual repricing dates, other than the advances to the Ministry of Finance and Economy which is expected to mature in 6 months to 1 year (MNT11.7 million), 1 - 5 years (MNT58.5 million) and more than 5 years (MNT46.8 million).

30. Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instruments is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Most of the financial instruments as at 31 December 2004 are short term in nature with maturities of less than one year. The estimated fair values of those financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets.

31. Prior year adjustments - Correction of fundamental errors

The corrections of fundamental errors relate to the following:

i) to recognise the fair value of the gold forward and option contracts on the Bank's balance sheet in accordance with IAS 39 Financial Instruments: Recognition and Measurement;

ii) to reverse revaluation gain recognised subsequent to the default of certain gold forward and option contracts; and

iii) to correct the accounting treatment for a gold repurchase agreement entered in 1999 and matured in 2004 to comply with the accounting policy as set out in Note 4(f).

	2003 MNT 'million
Effects on net profit / (loss) for the year	
Profit for the year as previously stated	9,379
Prior year adjustments	(10,033)
Loss for the year as restated	(654)
	MNT 'million
Effects on retained earnings at 1 January 2003	
Retained earnings at 1 January 2003 as previously stated	6,628
Prior year adjustments	3,123
Retained earnings at 1 January 2003 as restated	9,751

31. Prior year adjustments (continued)

Comparative figures

Certain comparative figures have been restated as a result of the prior year adjustments and to conform with the presentation and classification of items in the current year's financial statements as follows:

	As restated MNT'million	As previously stated MNT'million
(a) Balance sheet as at 31 December 2003		
Gold bullion and precious metal	30,978	15,430
Advances to companies	10,586	18,532
Other assets	12,720	507
Liabilities due to foreign parties	192,340	182,753
Other liabilities	20,678	3,540
Retained earnings	(1,946)	1,943
Other reserves	27,496	30,517
(b) Income statement for the year ended 31 December 2003		
Gold loss	(11,032)	(999)
(Loss) / Profit for the year	(654)	9,379

32. 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.

Appendix - 1

MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004*
GDP growth	1.1	1.0	4.0	5.5	10.6
GDP, current price, billions of togrog	1018.9	1115.6	1240.8	1461.2	1808.0
Inflation (%)	8.1	8.0	1.6	4.7	11.0
Unemployment (%)	4.6	4.6	3.4	3.5	3.6
Monetary survey (billions of togrog)					
M2	258.8	331.1	470.1	703.3	847.0
Net foreign assets	201.7	220.2	308.5	256.3	311.0
Net domestic credit	84.8	129.3	200.0	514.6	647.3
M2/GDP (%)	25.4	29.7	37.9	48.1	46.8
Loan/GDP (%)	6.6	12.1	18.7	30.3	33.6
Deposit/GDP (%)	12.6	15.7	22.8	33.6	34.6
Banks' loan	66.8	135.1	231.4	442.1	606.8
Non-performing loan	14.6	9.1	11.7	21.1	39.1
Banks' interest rate	30.3	31.8	26.6	25.6	24.0
Banks' deposit rate	13.8	13.2	14.0	14.0	13.2
CBBill's weighted average rate (%)	8.6	8.6	9.9	11.5	15.8
Balance of payments (millions of U.S. dollar)					
Exports F.O.B	535.8	523.2	523.9	627.3	872.1
Imports C.I.F	-676.0	-693.1	-752.8	-826.9	-901.0**
Current account	-69.9	-61.7	-105.1	-98.7	63.4
Current account/GDP (%)	-7.2	-6.1	-9.4	-8.3	4.2
International reserve	190.9	206.7	268.2	203.4	207.8
In weeks of imports	14.7	15.5	18.5	12.8	12.0
Togrog rate against U.S. dollar	1097.0	1101.3	1124.1	1170.3	1211.8
General government budget (billions of togrog)					
Total revenue and grants	351.0	439.3	477.0	535.8	697.4
Current revenue	346.2	430.0	469.7	526.4	690.5
Total expenditure and net lending	429.7	489.9	550.5	616.5	713.8
Current expenditure	314.1	366.8	415.3	446.3	525.9
Overall balance	-78.7	-50.6	-73.4	-80.7	-16.5
Overall balance/GDP	-7.7	-4.5	-5.9	-5.5	-0.9
Financing					
Foreign, net	66.6	72.5	81.8	-167.0	60.6
Domestic, net	12.1	-24.3	-8.3	227.4	-44.1

* Preliminary
** Estimated as F.O.B

Appendix-2

MONEY SUPPLY — in millions of togrogs

	Currency issued in circulation		Of which			Money (M1)		Of which	
				Currency outside banks					
	amount	Monthly changes %	Bank's Vault	amount	Monthly changes %	amount	Monthly changes %	Non-banks demand deposits (BoM)	Demand deposits (Banks)
1991 12	2,003.0		308.7	1,694.3		7,313.7		27.3	5,592.1
1992 12	2,896.4		1,057.2	1,839.2		7,640.2		11.2	5,789.8
1993 12	10,786.1	13.2	2,035.5	8,750.6	12.0	18,548.4	-8.8	40.6	9,757.2
1994 12	21,804.8	3.1	3,037.6	18,767.2	5.7	32,871.2	-0.4		14,104.0
1995 12	29,755.7	0.8	4,164.5	25,591.2	2.6	42,636.5	-0.4		17,045.3
1996 12	46,095.8	11.8	4,391.4	41,704.4	14.4	64,301.6	14.7		22,597.2
1997 12	56,816.5	3.1	7,048.2	49,768.3	4.1	76,108.9	4.0		26,340.6
1998 12	61,754.2	5.7	5,308.4	56,445.8	9.2	82,582.0	9.4		26,136.2
1999 03	52,625.8	-7.2	4,558.4	48,067.4	-9.0	66,289.8	-7.3		18,222.4
06	78,453.6	9.3	4,645.8	73,807.8	8.1	92,599.9	5.7		18,792.1
09	82,990.7	-2.1	6,630.0	76,360.7	-4.5	100,454.2	-1.5		24,093.5
12	91,567.5	13.8	4,286.2	87,281.3	15.2	114,825.7	14.9		27,544.4
2000 03	102,316.4	30.1	7,282.1	95,034.2	30.4	116,237.0	22.4		21,202.8
06	125,507.4	-2.1	6,618.0	118,889.4	1.2	143,684.2	2.7		24,794.8
09	120,879.8	-1.1	6,405.4	114,474.4	-0.4	143,562.4	2.5		29,088.0
12	107,394.4	7.8	6,461.0	100,933.4	7.3	130,775.0	8.9		29,841.6
2001 03	99,711.6	-2.4	6,000.6	93,711.0	-1.4	123,586.3	3.0		29,875.3
06	133,397.4	6.6	7,933.6	125,463.8	6.7	155,099.6	2.8		29,635.9
09	124,288.6	-1.2	7,980.1	116,308.5	-0.7	151,808.6	1.0		35,500.2
12	119,205.8	5.7	10,045.1	109,160.7	8.2	156,155.3	6.9		46,994.6
2002 03	110,822.1	1.7	9,538.3	101,283.8	6.3	146,932.2	5.9		45,648.4
06	145,888.0	4.5	14,093.3	131,794.6	4.0	187,708.4	5.3		55,913.8
09	144,851.7	-4.8	14,176.1	130,675.6	-6.6	181,084.7	-4.4		50,409.0
12	134,642.8	0.5	13,859.2	120,783.6	1.2	187,727.8	6.9		66,944.1
2003 01	138,836.5	3.1	18,556.1	120,280.4	-0.4	196,577.6	4.7		76,297.2
02	120,935.7	-12.9	14,635.7	106,300.1	-11.6	176,951.1	-10.0		70,651.0
03	131,235.3	8.5	16,228.6	115,006.7	8.2	180,109.6	1.8		65,102.9
04	145,422.1	10.8	18,198.2	127,224.0	10.6	193,596.3	7.5		66,372.4
05	152,903.4	5.1	17,645.1	135,258.3	6.3	200,968.7	3.8		65,710.4
06	160,481.3	5.0	19,423.2	141,058.1	4.3	208,987.9	4.0		67,929.8
07	162,537.0	1.3	17,115.5	145,421.5	3.1	204,711.3	-2.0		59,289.9
08	168,875.6	3.9	18,414.8	150,460.8	3.5	217,316.7	6.2		66,855.9
09	166,532.4	-1.4	18,150.1	148,382.3	-1.4	214,417.5	-1.3		66,035.2
10	156,175.3	-6.2	14,614.6	141,560.7	-4.6	213,157.5	-0.6		71,596.8
11	151,140.6	-3.2	16,869.1	134,271.5	-5.1	203,784.6	-4.4		69,513.1
12	152,826.6	1.1	21,329.9	131,496.7	-2.1	212,833.4	4.4		81,336.7
2004 01	139,828.5	-8.5	17,170.9	122,657.7	-6.7	200,525.0	-5.8		77,867.4
02	147,680.9	5.6	20,881.7	126,799.2	3.4	198,110.8	-1.2		71,311.6
03	161,225.1	9.2	21,540.2	139,685.0	10.2	210,799.3	6.4		71,114.3
04	182,358.9	13.1	22,515.5	159,843.4	14.4	225,477.7	7.0		65,634.3
05	189,211.8	3.8	20,124.5	169,087.3	5.8	237,217.9	5.2		68,130.6
06	190,175.8	0.5	19,898.5	170,277.4	0.7	254,807.0	7.4		84,529.6
07	190,891.1	0.4	18,837.9	172,053.2	1.0	248,764.7	-2.4		76,711.4
08	193,995.2	1.6	20,788.6	173,206.6	0.7	254,029.2	2.1		80,822.6
09	183,020.2	-5.7	20,062.4	162,957.8	-5.9	241,994.9	-4.7		79,037.1
10	173,566.1	-5.2	20,568.0	152,998.1	-6.1	225,739.4	-6.7		72,741.2
11	165,719.2	-4.5	27,632.6	138,086.6	-9.7	212,578.7	-5.8		74,492.1
12	168,521.1	1.7	25,008.4	143,512.7	3.9	221,327.6	4.1		77,814.9

Appendix-2 (continued)

MONEY SUPPLY

in millions of togrogs

End-of-period	Quasi money		Of which				Money (M2)	
	amount	Monthly changes %	Time saving deposits	Of which: Individuals	Of which: Enterprises	Foreign currency deposits	amount	Monthly changes %
1991 12	2,601.1		1,996.9	1,553.3	443.6	604.2	4,322.7	
1992 12	5,412.1		4,430.2	2,985.7	1,444.5	981.9	13,052.3	
1993 12	24,215.8	10.6	10,103.1	7,969.6	2,133.5	14,112.7	42,764.2	1.2
1994 12	43,905.8	-2.6	28,937.5	25,287.3	3,650.2	14,968.3	76,777.0	-1.7
1995 12	59,408.1	-4.7	38,529.1	36,602.7	1,926.4	20,879.0	102,044.6	-2.9
1996 12	64,093.7	-4.0	35,164.2	33,819.1	1,345.1	28,929.5	128,395.3	4.5
1997 12	93,956.6	13.0	44,673.8	42,892.7	1,781.1	49,282.8	170,065.5	8.8
1998 12	84,667.6	-0.5	44,840.1	42,044.5	2,795.6	39,827.5	167,249.6	4.2
1999 03	87,392.9	-3.3	42,874.2	40,646.1	2,228.1	44,518.7	153,682.7	-5.1
06	92,035.4	4.7	41,158.2	38,447.7	2,710.5	50,877.2	184,635.3	5.2
09	98,485.8	3.8	44,071.8	41,877.7	2,194.1	54,414.0	198,940.0	1.1
12	105,341.3	-1.6	45,052.3	43,257.9	1,794.4	60,289.1	220,167.0	6.3
2000 03	106,197.0	-5.7	47,447.8	46,009.3	1,438.5	58,749.3	222,434.0	7.2
06	111,573.9	8.3	49,036.2	46,967.5	2,068.8	62,537.7	255,258.1	5.0
09	120,927.8	3.5	54,046.5	51,485.1	2,561.4	66,881.3	264,490.2	3.0
12	128,067.7	2.1	59,004.3	54,125.9	4,878.4	69,063.4	258,842.6	5.4
2001 03	146,954.5	6.4	66,993.0	61,110.6	5,882.4	79,961.5	270,540.8	4.8
06	158,846.5	6.6	72,344.0	63,382.0	8,962.1	86,502.5	313,946.1	4.7
09	165,619.9	-3.0	81,629.0	70,893.8	10,735.3	83,990.8	317,428.5	-1.1
12	174,908.9	3.0	87,590.4	79,321.6	8,268.7	87,318.6	331,064.3	4.8
03	198,939.7	2.8	102,964.3	92,059.3	10,905.0	95,975.4	345,871.9	4.1
06	213,270.1	1.6	113,054.1	103,517.4	9,536.7	100,216.0	400,978.5	3.3
09	256,280.1	6.2	134,245.4	121,098.3	13,147.1	122,034.7	437,364.8	1.5
12	282,397.8	3.8	147,211.7	137,182.7	10,029.0	135,186.1	470,125.6	5.0
2003 01	291,039.3	3.1	154,137.4	146,258.1	7,879.3	136,902.0	487,616.9	3.7
02	313,492.5	7.7	167,210.0	159,061.9	8,148.0	146,282.5	490,443.6	0.6
03	324,137.7	3.4	176,134.3	163,836.2	12,298.1	148,003.4	504,247.3	2.8
04	336,930.3	3.9	181,237.5	168,090.5	13,147.0	155,692.8	530,526.7	5.2
05	341,454.2	1.3	186,132.1	173,389.7	12,742.4	155,322.1	542,422.9	2.2
06	348,727.8	2.1	193,137.5	180,771.4	12,366.1	155,590.3	557,715.7	2.8
07	377,666.1	8.3	203,725.4	191,044.6	12,680.8	173,940.8	582,377.4	4.4
08	371,170.3	-1.7	203,603.9	193,425.6	10,178.3	167,566.4	588,487.0	1.0
09	394,923.6	6.4	210,986.9	200,585.6	10,401.3	183,936.8	609,341.1	3.5
10	410,229.7	3.9	220,221.5	210,127.9	10,093.6	190,008.2	623,387.2	2.3
11	423,716.6	3.3	223,024.3	212,120.7	10,903.6	200,692.3	627,501.2	0.7
12	490,499.0	15.8	240,280.1	228,133.5	12,146.6	250,218.9	703,332.4	12.1
2004 01	497,735.9	1.5	248,877.0	237,069.9	11,807.1	248,858.9	698,260.9	-0.7
02	523,201.5	5.1	262,545.0	251,318.6	11,226.5	260,656.5	721,312.3	3.3
03	529,391.3	1.2	272,769.8	259,914.4	12,855.4	256,621.5	740,190.6	2.6
04	549,398.6	3.8	273,266.8	259,772.2	13,494.6	276,131.8	774,876.3	4.7
05	552,160.3	0.5	276,109.7	262,725.7	13,384.0	276,050.5	789,378.2	1.9
06	557,364.5	0.9	284,331.0	270,335.1	13,995.9	273,033.5	812,171.5	2.9
07	564,807.6	1.3	287,506.4	272,174.2	15,332.2	277,301.2	813,572.3	0.2
08	588,435.6	4.2	287,457.8	270,448.4	17,009.4	300,977.8	842,464.8	3.6
09	585,255.1	-0.5	287,009.8	270,634.3	16,375.5	298,245.3	827,250.0	-1.8
10	605,383.0	3.4	292,771.3	277,277.8	15,493.4	312,611.7	831,122.4	0.5
11	626,969.1	3.6	295,917.2	280,841.7	15,075.5	331,051.9	839,547.8	1.0
12	625,704.9	-0.2	300,976.4	287,894.4	13,082.0	324,728.5	847,032.4	0.9

Appendix-3

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	2247.0	1744.3	2153.2	2906.7			2736.5	1424.5
1994 12	3565.3	2723.1	3658.8	4147.5			4681.4	1855.4
				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 12	95.5	25.0	10.0	28.8			10.6	8.5
2000 12	46.6	12.4	5.2	12.9	4.9	4.1	3.5	3.7
				2000.12=100				
2001 12	50.7	14.8	5.5	13.3	4.9	4.3	3.6	4.3
2002 03	51.6	15.9	5.5	12.9	4.9	4.4	3.6	4.4
06	53.5	18.8	3.8	12.5	5.1	5.7	3.5	4.2
09	47.9	15.0	3.8	12.1	4.7	4.5	3.6	4.2
12	49.9	14.8	5.6	12.2	4.7	4.8	3.6	4.3
2003 01	51.3	15.9	5.5	12.0	4.7	5.3	3.6	4.3
02	52.5	17.3	5.6	11.7	4.7	5.5	3.6	4.2
03	54.9	19.5	5.6	11.7	4.7	5.7	3.6	4.2
04	57.8	22.3	5.6	11.8	4.6	5.7	3.6	4.2
05	61.3	26.4	5.0	11.9	4.7	5.4	3.7	4.2
06	59.0	25.3	4.1	11.9	5.0	5.0	3.6	4.2
07	57.7	23.4	3.9	12.6	5.0	5.1	3.6	4.2
08	52.2	18.9	3.6	12.5	4.7	4.8	3.6	4.1
09	50.8	17.8	3.9	13.0	4.5	3.9	3.6	4.1
10	50.7	16.0	4.3	14.5	4.6	3.5	3.7	4.1
11	52.0	16.7	5.1	14.3	4.8	3.3	3.7	4.2
12	53.8	18.3	5.3	14.2	4.8	3.5	3.7	4.2
2004 01	56.1	19.6	5.4	14.4	5.0	3.8	3.7	4.2
02	58.7	21.5	5.5	14.8	5.0	4.0	3.7	4.2
03	59.8	22.2	5.5	15.0	5.1	4.0	3.8	4.2
04	61.8	23.6	5.5	15.5	5.1	4.1	3.8	4.3
05	63.4	25.4	4.9	15.5	5.2	4.3	3.8	4.3
06	63.5	26.4	4.0	15.6	5.1	4.3	3.8	4.3
07	65.1	27.0	3.6	16.0	5.1	5.1	3.9	4.4
08	63.1	24.5	3.7	16.4	5.2	5.0	3.9	4.4
09	61.5	23.6	4.1	16.4	5.0	4.1	3.9	4.4
10	59.7	21.5	4.7	16.3	5.0	3.7	3.9	4.4
11	60.2	21.8	5.0	16.2	5.0	3.9	4.0	4.4
12	61.9	22.6	5.2	16.1	5.1	4.3	4.0	4.4

Appendix-3 (continued)

CONSUMER PRICE INDEX

in percent

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	1304.3	1161.6	650.4	896.4	743.6	1404.4	1782.9	1068.3
1994 12	2363.1	1957.5	1259.4	2110.3	972.1	2126.9	3377.3	1595.7
				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 12	23.9	0.6	3.1	7.1		2.4	10.2	32.1
2000 12	13.5	0.3	3.5	4.6		0.5	4.6	14.1
				2000.12=100				
2001 12	14.1	0.2	3.9	4.7		0.6	4.6	17.2
2002 03	13.7	0.3	3.9	4.6		0.5	4.5	16.4
06	13.6	0.3	3.8	4.6		0.5	4.5	16.3
09	13.6	0.3	3.8	4.5		0.6	4.5	17.5
12	14.9	0.3	4.0	4.8		0.6	5.2	18.0
2003 01	14.9	0.3	4.0	4.9		0.6	5.2	17.2
02	15.1	0.3	4.0	4.9		0.6	5.2	16.8
03	14.2	0.3	3.9	4.5		0.6	4.9	16.7
04	14.0	0.3	3.8	4.5		0.6	4.8	16.7
05	13.8	0.3	3.8	4.4		0.6	4.7	16.7
06	13.7	0.3	3.7	4.4		0.6	4.6	16.7
07	13.7	0.3	3.8	4.4		0.6	4.6	16.6
08	14.0	0.3	3.7	4.6		0.6	4.8	16.6
09	14.1	0.3	3.9	4.6		0.6	4.7	17.8
10	14.6	0.3	3.9	4.7		0.7	5.0	18.4
11	14.9	0.3	4.0	4.7		0.7	5.1	18.1
12	14.9	0.3	4.0	4.7		0.7	5.1	17.7
2004 01	14.7	0.3	4.0	4.6		0.7	5.1	17.4
02	14.4	0.3	3.9	4.5		0.6	5.0	17.3
03	14.4	0.3	4.0	4.5		0.6	5.0	17.3
04	14.2	0.3	3.8	4.5		0.6	4.9	16.9
05	14.1	0.3	3.9	4.5		0.6	4.9	16.5
06	14.0	0.3	3.8	4.5		0.6	4.9	16.6
07	14.1	0.3	3.8	4.5		0.6	4.9	16.5
08	14.2	0.3	3.8	4.5		0.6	4.9	17.3
09	14.4	0.3	4.1	4.5		0.6	4.9	17.6
10	14.7	0.3	4.2	4.6		0.6	4.9	19.0
11	15.0	0.3	4.2	4.6		0.7	5.0	19.0
12	15.0	0.3	4.3	4.6		0.7	5.0	18.4

Appendix-3 (continued)

CONSUMER PRICE INDEX — in percent

End-of period	Household goods	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	2087.2	1933.9	1673.3	2154.8	1483.8	1838.7	2.5	183.0	
1994 12	3247.2	1933.9	3221.1	4427.9	2904.7	3057.8	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 12	6.5	4.6	23.3	11.3	7.9	203.2	1.7	10.0	10.0
2000 12	3.2	1.4	10.1	7.4	3.7	100.0	2.1	8.1	
						2000.12=100			
2001 12	3.3	1.4	10.2	7.3	3.8	107.9	2.1	7.9	8.0
2002 03	3.3	1.4	10.3	7.2	3.8	107.8	-1.4	-0.1	-1.6
06	3.3	1.5	10.3	7.2	3.8	109.5	-0.5	1.5	-0.2
09	3.3	1.5	10.3	7.5	3.8	105.4	-0.9	-2.3	3.4
12	3.4	1.5	10.5	7.6	3.9	109.8	1.6	1.6	1.6
2003 01	3.3	1.5	10.5	7.6	4.0	110.3	0.5	0.5	1.7
02	3.3	1.5	10.5	7.5	4.1	111.4	1.0	1.5	1.9
03	3.3	1.6	10.5	7.5	4.3	113.0	1.5	3.0	4.9
04	3.3	1.6	10.4	7.9	4.3	116.0	2.6	5.7	6.4
05	3.2	1.6	10.4	7.9	4.3	119.2	2.7	8.5	8.2
06	3.2	1.6	10.4	7.8	4.3	116.7	-2.0	6.3	6.6
07	3.2	1.6	10.5	7.8	4.3	115.5	-1.1	5.2	6.5
08	3.3	1.6	10.6	8.4	4.3	111.0	-3.9	1.1	4.5
09	3.3	1.6	10.7	8.4	4.4	111.1	0.1	1.2	5.4
10	3.3	1.6	10.8	8.5	4.4	112.3	1.0	2.3	5.6
11	3.2	1.6	10.8	8.5	4.5	113.6	1.2	3.5	5.2
12	3.3	1.6	10.8	8.4	4.5	114.9	1.1	4.7	4.7
2004 01	3.2	1.6	10.7	8.4	4.5	116.6	1.5	1.5	5.7
02	3.2	1.6	10.8	8.4	4.5	119.0	2.0	3.6	6.8
03	3.3	1.6	10.8	8.4	4.5	120.1	0.9	4.5	6.2
04	3.3	1.6	10.7	8.4	4.6	121.5	1.2	5.8	4.7
05	3.3	1.6	10.8	8.4	4.5	122.7	1.0	6.8	2.9
06	3.3	1.6	10.8	8.4	4.7	123.0	0.3	7.0	5.3
07	3.3	1.6	11.1	8.6	4.7	125.1	1.7	8.9	8.3
08	3.4	1.7	12.1	9.0	4.8	125.5	0.4	9.3	13.0
09	3.4	1.7	12.6	9.0	4.8	125.0	-0.4	8.9	12.6
10	3.4	1.7	13.0	9.0	4.8	125.3	0.2	9.1	11.7
11	3.4	1.7	13.2	9.0	4.8	126.3	0.8	10.0	11.2
12	3.4	1.7	13.1	9.0	4.8	127.4	0.9	11.0	11.0

Appendix-4

MONETARY SURVEY

in millions of togrogs

End-of period	Net foreign assets	Domestic credit (net)	Of which						
			Central Govern-ment	Public enter-prises	Private sector	Principal in arrears	Substandard doubtful, loss loans	Non-bank financial institutions	Stock & promis-sory note
1991 12	495.4	10,971.2	-1,883.7	9,779.6	3,075.3		0.0	0.0	0.0
1992 12	-27.0	16,078.2	-3,051.7	12,204.2	6,925.7		0.0	0.0	0.0
1993 12	23,395.7	24,460.3	-7,143.4	21,744.4	9,859.3		0.0	0.0	0.0
1994 12	29,699.3	49,190.3	-3,773.1	12,193.3	40,638.0		0.0	7.8	124.3
1995 12	51,709.7	45,494.7	-17,227.8	10,883.3	51,653.5		0.0	61.4	124.3
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	0.0
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	0.0
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	0.0
1999 12	167,541.5	116,635.6	34,555.7	8,564.5	31,408.6	2,925.7	39,181.0	0.0	0.0
2000 12	201,696.9	84,831.1	17,171.2	6,281.5	45,482.9	1,281.8	14,613.8	0.0	0.0
2001 12	220,165.7	129,259.5	-6,829.1	10,402.0	114,670.4	1,798.3	9,067.6	150.3	0.0
2002 03	219,898.3	150,435.6	-1,724.8	10,486.9	127,431.4	3,526.4	10,565.4	150.3	0.0
06	223,696.2	195,587.4	3,529.6	12,675.9	163,173.1	5,437.4	10,621.1	150.3	0.0
09	276,385.3	177,337.3	-20,282.6	13,509.2	168,246.7	4,263.0	11,450.7	150.3	0.0
12	308,507.4	200,027.4	-32,439.3	12,184.9	203,567.2	4,819.4	11,744.9	150.3	0.0
2003 01	317,455.0	210,552.0	-33,345.3	12,045.1	214,002.3	5,710.5	11,989.1	150.3	0.0
02	302,249.3	231,186.8	-29,411.5	11,835.5	228,615.8	7,823.7	12,173.0	150.3	0.0
03	307,375.0	245,360.2	-35,418.6	11,194.3	239,107.3	11,582.1	18,744.9	150.3	0.0
04	310,190.3	264,074.7	-39,663.1	10,991.2	261,760.0	11,646.2	19,190.0	150.3	0.0
05	320,070.6	274,327.1	-43,096.0	9,448.7	273,808.6	13,515.8	20,499.8	150.3	0.0
06	321,357.8	284,502.7	-44,157.8	12,582.5	282,641.1	13,310.1	19,976.6	150.3	0.0
07	347,071.9	287,451.5	-54,417.2	14,395.1	293,791.3	12,941.0	20,591.1	150.3	0.0
08	352,808.3	288,619.0	-61,361.0	16,062.7	299,330.8	13,774.9	20,661.3	150.3	0.0
09	381,705.0	272,149.6	-81,605.8	15,712.7	304,676.9	11,538.9	21,676.5	150.3	0.0
10	391,665.3	277,991.6	-93,016.8	17,585.4	317,005.3	14,834.1	21,433.2	150.3	0.0
11	377,107.6	323,133.9	-106,829.7	17,207.2	376,970.8	14,428.2	21,207.1	150.3	0.0
12	256,341.5	514,615.2	96,687.3	16,203.6	365,024.4	15,549.7	21,150.3	0.0	0.0
2004 01	210938.2	527472.5	100200.1	12473.1	376409.2	17208.3	21124.8	57.0	0.0
02	233150.7	543489.7	101141.7	12723.4	391234.1	16004.5	22253.2	132.8	0.0
03	269113.3	550248.3	77945.9	15495.6	418615.4	14722.7	23350.5	118.1	0.0
04	257904.1	582744.3	74104.9	15420.0	448313.9	18648.7	25972.5	284.3	0.0
05	261505.6	584473.5	64524.8	16721.8	459049.4	15676.3	28120.8	380.4	0.0
06	273072.5	587827.4	61165.9	14293.9	467546.9	13404.9	30903.6	512.2	0.0
07	297076.9	594610.3	53937.6	13523.6	478064.1	18757.8	29950.6	376.6	0.0
08	292791.8	610099.6	49541.5	13449.4	491972.3	21515.2	33186.7	434.5	0.0
09	298850.9	614054.1	46391.0	13019.3	497215.2	21186.6	35806.2	435.8	0.0
10	293005.8	619888.3	44523.6	12466.9	504241.6	22523.7	35687.8	444.7	0.0
11	287257.6	654828.4	62787.7	11488.0	523046.4	21456.3	35167.8	882.2	0.0
12	311005.2	647305.1	40506.5	12560.1	533048.8	21617.1	39118.0	454.6	0.0

Appendix-4 (continued)

MONETARY SURVEY

in millions of togrogs

End-of period	Total assets	Money (1)	Quasi money	Long-term foreign liabilities	Other items (net)	Total liabities
1991 12	11,466.6	7,313.7	2,601.2	1,981.7	-430.0	11,466.6
1992 12	16,051.2	7,640.2	5,412.1	3,809.5	-810.6	16,051.2
1993 12	47,856.0	18,548.4	24,215.8	9,094.4	-4,002.6	47,856.0
1994 12	78,889.6	32,871.2	43,905.8	7,452.1	-5,339.5	78,889.6
1995 12	97,204.4	42,636.5	59,408.2	14,176.2	-19,016.5	97,204.4
1996 12	163,974.0	64,301.6	64,093.7	11,121.4	24,457.3	163,974.0
1997 12	203,072.6	76,108.9	93,956.6	3,659.2	29,347.9	203,072.6
1998 12	232,619.5	82,582.0	84,667.6	12,800.4	52,569.5	232,619.5
1999 12	284,177.1	114,825.7	105,341.3	5,682.5	58,327.5	284,177.1
2000 12	286,528.0	130,775.0	128,067.7	4,173.2	23,512.1	286,528.0
2001 12	349,425.2	156,155.3	174,908.9	6,603.8	11,757.2	349,425.2
2002 03	370,333.9	146,932.2	198,939.7	8,345.9	16,116.1	370,333.9
06	419,283.7	187,708.4	213,270.1	8,890.5	9,414.7	419,283.7
09	453,722.6	181,084.7	256,280.2	10,606.0	5,751.7	453,722.6
12	508,534.8	187,727.8	282,397.8	11,718.8	26,690.4	508,534.8
2003 01	528,007.0	196,577.6	291,039.3	12,235.5	28,154.5	528,007.0
02	533,436.2	176,951.1	313,492.5	11,964.7	31,027.9	533,436.2
03	552,735.2	180,109.6	324,137.7	11,177.2	37,310.7	552,735.2
04	574,265.0	193,596.3	336,930.3	11,552.4	32,185.9	574,265.0
05	594,397.6	200,968.7	341,454.2	12,405.7	39,569.1	594,397.6
06	605,860.5	208,987.9	348,727.8	12,475.9	35,668.9	605,860.5
07	634,523.5	204,711.3	377,666.1	13,215.4	38,930.6	634,523.5
08	641,427.2	217,316.7	371,170.3	15,502.3	37,437.9	641,427.2
09	653,854.6	214,417.5	394,923.6	15,867.6	28,645.9	653,854.6
10	669,656.9	213,157.5	410,229.7	16,541.6	29,728.1	669,656.9
11	700,241.4	203,784.6	423,716.6	42,580.0	30,160.2	700,241.4
12	770,956.7	212,833.4	490,499.0	44,100.0	23,524.2	770,956.7
2004 01	738410.6	200,525.0	497,735.9	14,208.8	25,941.0	738,410.6
02	776640.4	198,110.8	523,201.5	12,033.9	43,294.3	776,640.4
03	819361.5	210,799.3	529,391.3	13,225.1	65,945.8	819,361.5
04	840648.4	225,477.7	549,398.6	18,812.2	46,959.8	840,648.4
05	845979.2	237,217.9	552,160.3	18,578.9	38,022.0	845,979.2
06	860899.8	254,807.0	557,364.5	18,992.2	29,736.1	860,899.8
07	891687.2	248,764.7	564,807.6	19,883.7	58,231.2	891,687.2
08	902891.4	254,029.2	588,435.6	16,632.2	43,794.4	902,891.4
09	912905.0	241,994.9	585,255.1	21,867.2	63,787.9	912,905.0
10	912894.1	225,739.4	605,383.0	23,214.4	58,557.2	912,894.1
11	942086.1	212,578.7	626,969.1	19,620.8	82,917.4	942,086.1
12	958310.2	221,327.6	625,704.9	8,873.8	102,404.0	958,310.2

Appendix-5

DEPOSIT INTEREST RATE

in percent

End-of-period	Deposit rates					
	Current account		Demand deposit	Time deposit		
	Domestic currency	Foreign currency		Domestic currency		Foreign currency
				0-1 year	1-3 year	1-3 year
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 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 12	3.0-6.0	1.0-3.6	3.0-13.2	9.6-30.0		3.6-14.4
2000 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
2002 01	0.0-5.1	0.3-4.2	1.2-9.6	2.4-24.0		1.0-13.2
02	0.0-5.1	0.3-4.2	1.2-9.6	2.4-24.0		1.0-13.2
03	0.0-5.1	0.3-4.2	1.2-9.6	2.4-24.0		1.0-13.2
04	0.0-5.1	0.3-4.2	1.2-9.6	2.4-24.0		1.0-13.2
05	0.0-6.0	0.3-3.6	1.2-9.6	2.4-24.0		1.0-13.2
06	0.0-6.0	0.3-3.6	2.4-9.6	2.4-22.0		1.0-13.2
07	0.0-4.8	0.3-3.6	2.4-10.0	2.4-22.0		1.0-13.2
08	0.0-4.8	0.3-3.6	2.4-10.0	2.4-22.0		1.0-13.2
09	0.0-4.8	0.3-3.6	2.4-10.2	6.0-22.0		1.2-13.2
10	0.0-4.8	0.3-3.6	2.4-10.2	6.0-22.0		1.2-13.2
11	0.0-4.8	0.3-3.6	2.4-10.2	6.0-22.0		1.2-12.0
12	0.0-6.0	0.3-3.0	2.4-10.2	6.0-22.0		1.2-12.0
2003 01	0.0-6.0	0.3-3.0	2.4-10.2	6.0-22.0		1.2-12.0
02	0.0-6.0	0.3-3.0	2.4-10.2	6.0-22.0		1.2-12.0
03	0.0-6.0	0.3-3.0	2.4-10.2	6.0-22.0		1.2-12.0
04	0.0-6.0	0.3-3.0	2.4-10.2	6.0-22.0		1.2-12.0
05	0.0-6.0	0.3-3.0	2.4-10.2	6.0-22.0		1.2-22.1
06	0.0-6.0	0.3-3.0	6.0-10.2	6.0-22.0		1.81-12.0
07	0.0-6.0	0.3-3.0	6.0-10.2	6.0-22.0		1.81-12.0
08	0.0-6.0	0.3-3.0	6.0-10.2	6.0-22.2		1.81-12.0
09	0.0-6.0	0.3-3.0	3.6-10.2	6.0-22.2		2.4-12.0
10	0.0-6.0	0.3-3.0	2.4-10.0	6.0-22.0		2.4-12.0
11	0.0-6.0	0.3-3.0	2.4-10.0	6.0-22.0		2.4-12.0
12	0.0-6.0	0.3-3.0	1,8-10.0	6.0-22.0		2.4-12.0
2004 01	0.3-6.0	0.3-3.0	1.8-10.0	6.0-22.0		2.4-12.0
02	0.3-6.0	0.3-3.0	1.8-10.0	6.0-22.0		2.4-12.0
03	0.0-6.6	0.3-3.0	6.0-10.0	6.0-22.0		2.4-12.0
04	0.0-6.0	0.3-3.0	6.0-10.0	6.0-22.0		1.4-12.0
05	0.0-6.0	0.3-3.0	6.0-10.0	6.0-21.9		1.4-12.0
06	0.0-4.8	0.3-3.0	6.0-10.0	6.0-20.4		1.4-12.0
07	0.0-4.8	0.3-3.0	6.0-10.0	6.0-20.4		0.7-9.6
08	0.0-4.8	0.3-3.0	6.0-9.6	6.0-24.0		1.4-9.6
09	0.0-4.8	0.3-3.0	6.0-9.6	6.0-24.0		1.4-10.2
10	0.0-4.8	0.3-3.0	6.0-9.6	6.0-24.0		1.4-10.2
11	0.0-4.8	0.3-3.0	6.0-9.6	6.0-24.4		1.4-10.2
12	0.0-4.8	0.3-3.0	6.0-9.6	6.0-20.4		1.4-9.6

Appendix-6

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 year	3-5 year	more than 5
1994 12	72-264					
1995 12	72-150					
1996 12	72-109					
1997 12	45.0-50.0					
1998 12	23.3	45.8	34.2			
1999 12	11.4	38.8	36.5			
2000 12	8.6	34.7	25.8			
2001 01	4.8	38.8	23.7			
02	11.2	40.1	27.2			
03	11.2	38.0	21.5			
04	11.7	37.9	21.6			
05	12.5	37.6	24.2			
06	12.5	34.5	22.8			
07	11.1	33.9	20.7			
08	10.2	35.0	23.5			
09	9.9	37.4	21.4			
10	6.7	36.2	25.5			
11	6.5	37.4	23.3			
12	8.6	41.4	22.2			
2002 01	9.3	39.0	24.2			
02	11.6	34.2	21.4			
03	11.4	39.3	21.1			
04	11.4	37.8	22.3			
05	10.9	35.5	19.6			
06	11.5	33.4	22.3			
07	12.6	33.2	19.9			
08	13.3	35.0	20.4			
09	13.0	35.0	23.6			
10	8.9	35.1	19.9			
11	9.9	35.3	20.4			
12	9.9	33.4	19.8			
2003 01	4.9	30.7	20.7			
02	4.9	31.4	21.3			
03	3.9	32.6	20.8			
04	10.8	31.0	20.2			
05	14.3	32.0	16.6			
06	15.5	32.4	20.9			
07	14.1	32.8	19.9			
08	14.0	33.2	23.5			
09	11.3	32.2	22.6			
10	12.2	29.9	20.8			
11	12.6	33.2	21.7			
12	11.5	31.5	19.6			
2004 01	5.6	34.0	19.2			
02	7.9	32.4	17.8			
03	9.2	30.3	19.7			
04	13.6	30.5	21.0			
05	13.6	30.5	19.9			
06	13.3	30.3	21.8			
07	14.3	31.0	20.4			
08	14.4	33.1	19.2			
09	14.6	32.3	18.2			
10	15.7	31.5	17.7			
11	15.8	31.8	18.5			
12	15.8	30.0	17.9			

Appendix-7

MARKET RATES — Togrog exchange rate against foreign currencies

End-of-period	USD		EUR	SEK	BGN	HUF	CZK	EGP	ECU	JPY	CHF	GBP	HKD
	End-of-period	monthly average											
1993 12	396.51	395.03							349.19	3.55	275.01	592.70	51.32
1994 12	414.09	413.00							498.77	4.12	310.99	639.77	53.51
1995 12	473.62	473.48							604.81	4.63	409.53	731.27	61.23
1996 12	693.51	692.76							860.82	5.98	514.28	1172.48	89.64
1997 12	813.16	811.95							904.88	6.28	565.93	1358.14	104.93
1998 12	902.00	891.86							1052.86	7.71	656.72	1508.05	116.45
1999 12	1072.37	1070.43	1086.85							10.42	676.15	1734.56	137.99
2000 01	1087.61	1080.76	1065.97							10.17	661.87	1765.63	139.79
03	1090.00	1091.83	1065.15							10.20	670.60	1736.04	140.01
06	1065.00	1053.57	997.59							10.18	643.00	1598.62	136.69
09	1085.62	1084.14	957.25							10.05	628.98	1583.43	139.21
12	1097.00	1097.00	1006.61							9.74	659.53	1615.11	140.66
2001 01	1099.00	1097.77	1020.31							9.40	668.53	1611.46	140.91
03	1097.00	1098.00	977.04							8.93	623.40	1563.83	140.66
06	1097.00	1096.00	936.51							8.82	616.15	1551.05	140.65
09	1099.00	1099.50	1013.20							9.40	689.70	1607.60	140.90
12	1102.00	1101.29	973.60							8.39	657.30	1598.60	141.30
2002 01	1102.00	1102.00	964.50	104.50	494.20	3.90	30.20	238.10		8.18	675.00	1567.50	141.30
02	1104.00	1103.40	957.50	105.00	492.60	3.90	30.20	239.30		8.23	648.80	1572.90	141.60
03	1104.00	1104.00	971.70	108.00	498.10	4.00	31.30	238.30		8.34	664.70	1574.30	141.50
04	1104.00	1104.00	992.60	107.60	509.30	4.10	32.60	238.30		8.60	678.30	1606.20	141.50
05	1103.00	1103.35	1014.20	111.30	519.40	4.20	33.00	239.30		8.82	696.60	1603.00	141.40
06	1105.00	1104.00	1067.40	117.80	548.20	4.30	35.10	239.70		8.96	725.90	1657.30	141.70
07	1110.00	1108.38	1110.70	117.80	570.10	4.50	36.30	239.60		9.44	768.30	1753.00	142.30
08	1116.00	1113.23	1095.10	119.80	562.50	4.50	35.80	242.40		9.42	746.80	1711.40	143.10
09	1117.00	1116.05	1092.90	119.80	561.40	4.50	36.00	242.80		9.12	747.10	1738.00	143.30
10	1121.00	1119.00	1096.20	120.00	563.10	4.50	35.20	245.00		9.05	747.10	1742.60	143.70
11	1123.00	1122.22	1126.20	125.40	576.60	4.80	36.60	242.40		9.22	765.80	1777.30	144.00
12	1125.00	1124.09	1169.40	128.00	599.30	5.00	37.30	242.80		9.38	804.00	1804.00	144.30
2003 01	1132.00	1129.50	1224.70	133.20	626.20	5.00	39.00	210.40		9.54	833.50	1862.90	145.10
02	1138.00	1134.05	1228.50	135.10	628.50	5.00	38.70	204.30		9.72	840.10	1804.50	145.90
03	1140.00	1139.74	1219.30	132.10	625.30	4.90	38.30	198.40		9.48	824.50	1783.70	146.20
04	1134.00	1136.18	1243.70	136.10	638.90	5.10	39.50	193.00		9.45	826.00	1805.40	145.40
05	1130.00	1130.00	1328.80	145.30	682.80	5.40	42.40	189.40		9.51	871.00	1850.50	144.90
06	1139.00	1133.67	1302.20	142.20	669.20	4.90	41.30	188.90		9.53	844.60	1891.40	146.10
07	1153.00	1146.59	1318.50	143.50	677.40	5.00	41.30	188.20		9.62	852.00	1872.20	147.80
08	1154.00	1152.19	1255.20	136.30	644.80	4.90	38.70	187.60		9.86	816.20	1820.10	148.00
09	1159.00	1156.64	1321.80	147.90	678.60	5.20	41.80	188.50		10.40	857.80	1914.20	149.60
10	1165.00	1161.39	1306.30	151.10	698.50	5.30	42.40	189.60		10.78	876.00	1979.50	150.10
11	1171.00	1168.26	1397.60	154.90	716.30	5.20	43.60	190.00		10.72	903.10	2010.00	150.80
12	1168.00	1170.30	1460.20	160.60	746.50	5.60	44.90	188.80		10.92	935.70	2073.40	150.50
2004 01	1171.00	1170.15	1459.10	159.80	746.10	5.60	44.50	190.30		11.04	932.30	2127.60	150.80
02	1176.00	1173.18	1462.80	158.60	751.30	5.70	45.20	190.00		10.74	927.90	2191.10	151.10
03	1177.00	1177.65	1433.17	154.70	736.55	5.72	43.64	190.15		11.14	917.88	2142.55	150.98
04	1170.00	1173.00	1382.30	151.80	709.50	5.50	42.30	188.90		10.60	893.60	2068.00	150.00
05	1159.00	1162.90	1421.60	156.00	730.40	5.70	44.60	187.30		10.48	930.20	2130.00	148.70
06	1174.00	1166.95	1430.30	156.50	731.40	5.60	44.80	189.40		10.84	939.40	2146.60	150.50
07	1188.00	1182.84	1431.20	155.00	731.80	5.80	45.00	191.30		10.62	928.10	2159.50	152.30
08	1193.00	1191.58	1433.60	157.10	733.00	5.80	45.30	191.90		10.82	930.90	2134.10	152.90
09	1202.00	1198.93	1481.70	163.30	757.60	6.00	46.90	194.30		10.83	955.00	2177.90	154.10
10	1207.00	1204.42	1537.40	169.90	786.10	6.20	48.70	193.70		11.37	1005.30	2209.10	155.20
11	1214.00	1210.20	1612.10	180.70	824.30	6.60	52.00	194.70		11.81	1064.50	2298.60	156.10
12	1209.00	1211.77	1647.40	183.20	842.40	6.70	54.00	197.70		11.65	1067.70	2320.90	155.50

Appendix-7 (continued)

MARKET RATES — Togrog exchange rate against foreign currencies

End-of-period	RUB	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 12	42.65	108.96	0.74	582.16	547.97	24.73	0.11	237.68	543.18	257,761.60	4446.86	1271.24
12	39.95	129.53	0.95	730.75	691.09	28.52	0.15	282.20	642.41	308,574.47	5651.60	1473.72
2000 01	38.01	131.38	0.97	753.01	694.17	28.92	0.15	286.21	636.36	307,521.73	5601.65	1482.71
03	38.44	131.66	0.98	745.20	666.37	28.89	0.15	287.62	635.05	310,541.00	5442.91	1459.80
06	37.81	128.67	0.95	717.95	632.34	27.26	0.12	281.02	614.86	301,288.50	5261.10	1417.14
09	39.01	131.13	0.96	729.56	594.97	25.46	0.12	285.69	621.78	295,994.29	5319.54	1407.44
12	39.18	132.52	0.89	720.81	608.56	26.10	0.12	288.68	634.84	300,358.60	5062.66	1426.96
2001 01	38.74	132.75	0.86	730.48	599.12	25.67	0.12	289.21	629.15	291,235.00	5297.18	1415.57
03	38.12	132.53	0.84	700.29	542.41	24.80	0.11	288.68	615.15	287,797.95	4771.95	1388.36
06	37.66	132.54	0.84	719.79	566.55	24.23	0.10	288.68	602.38	298,877.65	4760.98	1370.43
09	37.30	132.80	0.85	701.70	539.00	24.90	0.12	289.20	631.90	318,847.40	4951.00	1423.20
12	36.20	133.10	0.83	691.00	559.70	24.90	0.11	290.00	595.90	306,080.50	4937.00	1382.40
2002 01	36.00	133.10	0.83	687.30	572.40	25.00	0.11	290.00	600.10	307,733.50	4738.60	1373.50
02	35.70	133.40	0.84	693.20	567.60	25.20	0.11	290.50	602.30	324,410.40	4890.70	1374.80
03	35.40	133.40	0.84	699.60	585.90	25.40	0.11	290.50	603.50	324,024.00	4979.00	1384.40
04	35.40	133.40	0.85	705.60	601.40	25.50	0.12	290.50	610.80	339,866.40	5111.50	1397.30
05	35.20	133.30	0.88	716.60	612.10	25.70	0.12	290.30	612.90	353,621.80	5382.60	1414.30
06	35.10	133.50	0.91	723.10	634.20	26.30	0.13	290.80	623.20	358,075.30	5425.60	1438.70
07	35.20	134.10	0.94	706.70	599.10	26.70	0.12	292.10	631.40	343,656.00	5383.50	1484.90
08	35.30	134.80	0.93	718.50	618.20	26.40	0.13	293.70	638.00	348,192.00	5033.20	1473.70
09	35.20	134.90	0.91	708.90	609.40	25.70	0.12	294.30	628.30	357,998.50	5048.80	1474.50
10	35.30	135.40	0.91	715.90	622.30	25.80	0.14	295.40	631.40	350,312.50	4921.20	1471.70
11	35.30	135.70	0.93	712.10	632.10	25.90	0.12	295.50	634.70	357,619.40	5031.00	1493.90
12	35.40	135.90	0.94	720.60	634.90	26.00	0.13	296.10	647.60	393,187.50	5298.80	1519.20
2003 01	35.60	136.70	0.97	744.30	666.70	26.50	0.13	297.90	653.50	415,302.50	5433.60	1561.60
02	36.00	137.50	0.96	762.70	690.30	26.70	0.13	299.50	656.60	403,534.80	5325.80	1558.00
03	36.30	137.70	0.91	777.90	683.80	26.60	0.13	300.00	644.30	376,542.00	4993.20	1554.90
04	36.50	137.00	0.94	782.40	702.30	26.40	0.13	298.40	639.00	376,488.00	5182.40	1564.00
05	36.90	136.50	0.94	814.40	731.80	27.00	0.14	297.40	651.40	409,851.00	5231.90	1598.90
06	37.60	137.60	0.95	840.70	758.50	27.30	0.14	299.70	649.40	391,986.90	5159.70	1601.50
07	38.10	139.30	0.98	826.00	762.50	27.50	0.13	303.40	656.80	415,714.20	5903.40	1616.10
08	37.80	139.40	0.98	824.60	738.60	28.00	0.13	303.70	656.70	426,547.30	5908.50	1582.20
09	37.80	140.00	1.01	876.00	798.30	29.70	0.14	305.30	674.40	432,390.00	5684.00	1666.80
10	39.00	140.80	0.99	888.50	822.00	29.20	0.14	306.60	672.20	450,592.90	5999.80	1675.20
11	39.10	141.50	0.97	897.60	847.20	29.30	0.14	308.20	679.00	464,008.80	6253.10	1685.70
12	39.90	141.10	0.98	892.60	872.10	29.50	0.14	307.40	686.40	485,537.60	6926.20	1729.00
2004 01	41.10	141.50	1.00	882.70	903.60	29.80	0.14	308.20	688.90	479670.90	7611.50	1748.50
02	41.20	142.10	1.00	874.50	907.00	29.90	0.14	309.50	689.80	463785.00	7820.40	1740.90
03	41.31	142.20	1.02	898.99	882.22	29.77	0.14	309.74	698.72	492427.38	8945.20	1730.81
04	40.40	141.40	1.00	851.60	839.70	29.30	0.13	307.90	687.50	448110.00	6569.60	1698.10
05	40.00	140.00	0.99	853.50	832.20	28.60	0.12	305.00	682.10	459398.60	7203.20	1695.30
06	40.50	141.80	1.02	873.00	820.30	28.70	0.12	308.90	685.90	469893.50	6973.60	1725.20
07	40.80	143.50	1.01	895.90	831.10	28.70	0.13	312.60	689.20	461716.20	7555.70	1728.70
08	40.80	144.10	1.03	905.50	832.40	28.60	0.13	313.90	695.30	482896.60	7873.80	1743.70
09	41.10	145.20	1.04	944.70	861.30	28.90	0.13	316.30	709.60	494442.70	7921.20	1764.30
10	42.00	145.80	1.08	986.50	900.70	29.40	0.13	317.60	725.40	513518.20	8605.90	1810.10
11	42.90	146.70	1.16	1028.70	955.10	30.70	0.13	319.50	741.00	547665.80	9299.20	1843.60
12	43.40	146.10	1.16	999.00	936.70	31.00	0.13	318.20	738.40	528151.70	8263.50	1875.00

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