Governor of the Bank of Mongolia Ochirbat CHULUUNBAT

STATEMENT FROM THE GOVERNOR

Ladies and Gentlemen,

I am pleased to present the 2002 Annual Report of the Bank of Mongolia (Central Bank) to our dear readers.

As for the implementation of the state monetary policy, 2002 has been a year with great achivements with substantial progress. Annual inflation dropped to 1.6 percent, which is the lowest since Mongolia embarked on transition to the market economy in 1991. Furthermore, Togrog exchange rate has been relatively stable throughout the year, and foreign reserve reached the highest ever level or 284.5 million USD, which equals to 22.4 weeks import coverage.

Improved public confidence in the national legal currency, Togrog and the banking sector has influenced the total saving and demand deposits to increase significantly, and the share of money outside banks to the total money to decline. Banks have been further strengthening the confidence through improving loan quality, introducing new financial products and services, and succeeding in the market competition. The Non Bank Financial Institutions have also been making significant contribution to the deepening of the financial intermediation.

The Bank of Mongolia considers the successful privatization of the Trade and Development Bank, the largest bank of Mongolia in terms of assets and loans, to the foreign strategical investors to be the biggest event of the structural reform of the Mongolian banking sector that took place in 2002.

The number of branch banks in rural area increased and operation scope extended; moreover, the performance of the Agricultural Bank, the bank with the widest network presence in rural area, has been further stabilized and substaintially improved. The activities of the Saving Bank advanced remarkably as well.

Despite of a number of advances in the banking and financial sector, tasks and issues of planning deeper policy and structural reforms awaits us. The Bank of Mongolia will work with its best effort to support activities of sustaining the economic stability, broadening loan availability to the public, encouraging public participation in the financial intermediation, eventually reducting of the high level of interest rate, bringing financial products and services closer to rural population, granting loans with medium and long term maturity, and introducing new financial products and services.

Sincerely yours,

Ochirbat Chuluunbat
Governor of the Bank of Mongolia

Ulaanbaatar city, 2003

1. BRIEF REVIEW OF THE WORLD ECONOMY

1. BRIEF REVIEW OF THE WORLD ECONOMY

1.1. Economic Prospects and Policy Issues

World economic growth depends heavily on developments in the United States, countries that comprise the European Union, and Japan. While economic recovery in these countries began in late 2001 and the first quarter of 2002 with the expansion of global trade and industrial production, prospects for the future remain somewhat fragile. Risks to a sustained strengthening of economic activity can be seen in the depreciation of the U.S. dollar and the fall in securities prices. The financial deterioration in some South American countries and in Turkey, combined with the fact that financial indicators for the United States have not met expectations for 2002 also raise concerns for future growth prospects.

Taking into account the developments during the first quarter of 2003, it is likely that economic activity will continue to fall short of earlier expectations. Furthermore, the economic tendency associated risks are expected to increase. However, generally low rates of inflation in key economies have contributed to more stimulative macroeconomic policies, and any sustained slowdown may be at least partially offset by expansionary monetary policies.

The economic recovery in the U.S during 2002, and the attendant expansion of world trade and industrial production, reflected in part the aggressive fiscal and monetary policy response to the tragic events of September 11 as well as the decline in the world oil prices by end 2001. Although the economies of North American countries and the developing countries in Asia grew rapidly during the first quarter of 2002, economic indicators generally declined for regions other than Asia during the second half of 2002. Prospects for a pick up in investment sufficient to strengthen the economic growth of developed countries are small, particularly in the context of continued high volitility in financial markets and the decrease in public confidence in accounting and auditing systems. Unpredictable market conditions and increased levels of risk have resulted in increased demand for government bonds and high rated corporate bonds to rise, and low inflation pressures have contributed to a decline in long-term interest rates.

The depreciation of the U.S. dollar against the Euro and the Yen reflects both lower than anticipated investment in the U.S. economy, and foreign investors' worries about the large U.S. current account deficit.

The slower than expected improvement of economic activity in the United States has held back economic recovery in Europe, and aggregate demand in Japan continues to be constrained by developments in the U.S. banking and corporate sectors.

The price of oil increased during the second half of 2002 in response to concerns regarding

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

	2000	2001	2002 [1]
World output	4.7	2.2	2.8
Advanced economies	3.8	0.8	1.7
Major advanced economies	3.4	0.6	1.4
Other advanced economies	5.3	1.6	2.6
European Union	3.5	1.6	1.1
Newly industrialized Asian economies	8.5	0.8	4.7
Developing countries	5.7	3.9	4.2
Countries in transition	6.6	5.0	3.9
World trade volume (goods, service)	12.6	-0.1	2.1
Import			
Advanced economies	11.8	-1.3	1.7
Developing countries	15.9	1.6	3.8
Countries in transition	13.4	11.7	6.9
Exports			
Advanced economies	12.0	-1.1	1.2
Developing countries	15.0	2.6	3.2
Countries in transition	14.7	5.9	5.3
Commodity prices (U.S. dollars)			
Oil	57.0	-14.0	0.5
Nonfuel	1.8	-5.4	4.2
Consumer prices			
Advanced economies	2.3	2.2	1.4
Developing countries	6.1	5.7	5.6
Countries in transition	20.2	15.9	11.3
Six-month London interbank offered rate (LIBOR, percent)			
On U.S. dollar deposits	6.6	3.7	2.1
On Japanese yen deposits	0.3	0.2	0.1
On euro deposits	4.6	4.1	3.4

[1] Projections

developments in the Middle East. Depending on the magnitude and duration, this increase might have a serious negative direct and indirect impact on global growth.

Capital markets remain very volatile and may possibly fall further. Although overvaluation of stocks during the 1990s has been eliminated, recent accounting and auditing scandals have seriously weakened investors' confidence in corporate management, contributing to a popssible undervaluation of stocks. This decline of the capital markets could also pose difficulties for activities of financial instiutions.

United States of America

As a result of the successful implementation of tax reductions and an aggressive monetary policy during recent years, the 2000-2001 economic recession was somewhat shorter and milder than the histroical average, owing in part to improvements in productivity during 2001 and the first quarter of 2002. In the second quarter of 2002, however, decreasing domestic consumption and increasing imports contributed to a significant slowing of U.S. GDP growth. By the end of the third quarter of 2002, the deterioration of capital market conditions exerted a further negative impact on prospects for sustained economic growth. Although the recent fall in long-term interest rates and the depreciation of the U.S. Dollar against the Euro and the Japanese yen may affect the economy positively, overall growth tends to be directly related to domestic demand and private investment. In response to lower than expected real growth and subdued inflation, the Federal Reserve lowered interest rates. On the fiscal side, although the combination of tax cuts and additional expenditures after the September 11 attacks have played an important role in maintaining domestic demand as usual, this strategy boosted the budget deficit, to the equivalent of 1.75 percent of estimated GDP. While the U.S. budget deficit was less than those of other industrialized countries, balancing the budget over the business cycle is crucial for strengthening domestic savings.

European Union

Compared with economic recovery in the U.S. and developing countries in Asia, that of the European Union is relatively slow. Increases in net exports—due to both increased exports and decreased imports—had a positive impact on economic growth within the European Union by end-2001. However, the decrease in imports reflected generally sluggish levels of domestic demand throughout much of the region.

There seem to be several factors that would support strengthening of growth during late 2002 and in 2003. For instance, an increase in incomes, falling inflation, and robust labor market performance could result in an increase in domestic demand. Furthermore, higher production returns, which still exceed the returns of U.S. corporations, may tend to attract more investors. Finally, Euro area stock markets have fallen even more sharply than those in the United States since 2000. Substantial variations in economic performance persist across the region, reflecting differences in the impact of recent global shocks—for example, from higher oil prices and weaker international trade—together with differences in fiscal pressures and underlying structural conditions. Among the larger economies, domestic demand has been particularly weak in Germany and Italy, while France has been somewhat more resilient, helped by labor market reforms that have boosted employment over the recent years. Inflation has been close to or above the 2 percent ceiling of the European Central Bank during much of the economic slowdown. Concerns have been heightened by a gradual upward trend in wage growth, which has been accompanied by falling productivity and hence a sharp rise in the unit labor costs. Inflation is expected to diminish in the period ahead, as the impact of temporary factors fades (including past increases in oil and fresh food prices, and the euro changeover), productivity stages a cyclical rebound, and if the recent strengthening in the euro is sustained.

Figure 1. Growth of World Real GDP

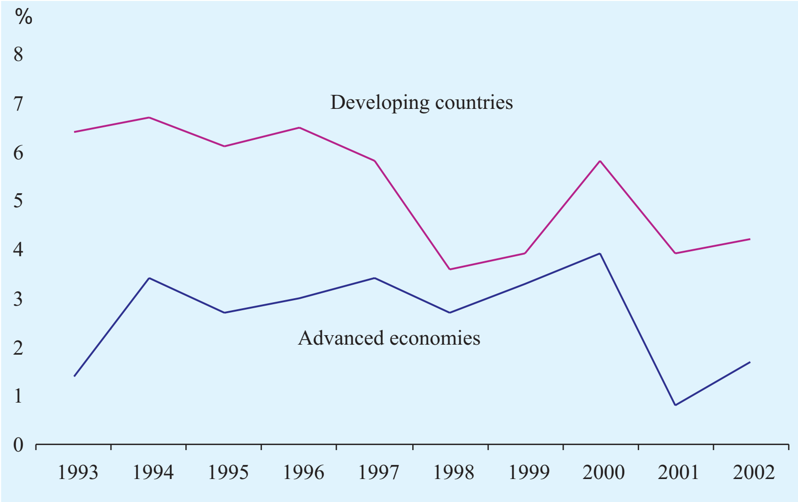


Figure 2. World Inflation rate

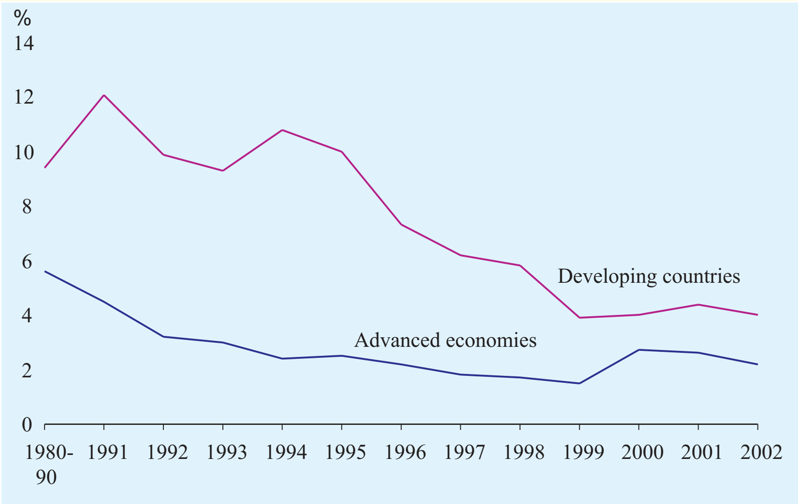
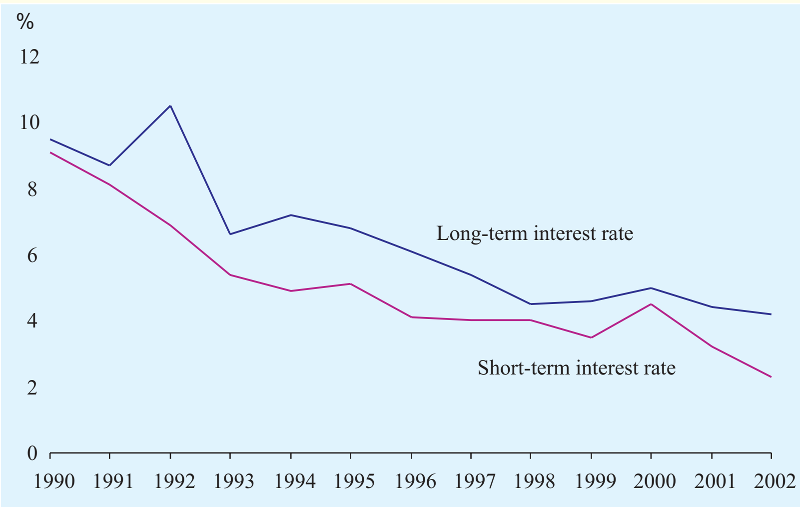


Figure 3. World long-term and short-term interest rate



Japan

Activity appears to have bottomed out in Japan after the third and the most severe recession of the last decade. A modest rebound is projected for the remainder of this year and in 2003, although it remains subject to downside risks. The fundamental issue in Japan, however, continues to be how to achieve more rapid underlying rates of output growth, and break the decade-long pattern of anemic performance interspersed with recession. This cannot be achieved by macroeconomic policies alone, but requires decisive action to deal with long-standing structural impediments. Such action is most important in the banking sector, where a vicious circle needs to be broken in which large, unrecognized non-performing loans are making banks unwilling to lend, hurting financial intermediation and activity. The activity accelerated modestly over the first half of 2002, underpinned by net exports, while private domestic demand remained relatively weak. Deflation of about 1 percent a year persists, magnifying real debt burdens.

Real GDP is projected to fall by 0.5 percent in 2002 before rebounding by a modest 1 percent in 2003. This anticipates a gradual recovery in private domestic demand, with private consumption growing somewhat in the second half of 2002 and business investment recovering late in the year. The contribution from net exports, however, is expected to weaken as rising domestic demand boosts imports and the appreciation of the Yen erodes competitiveness. Higher private spending is partly offset by fiscal consolidation, with government investment declining in the latter part of 2002. Over the last decade, the authorities have adopted a gradualist approach to reform, rather than taking decisive action to solve long-standing structural weaknesses exposed by the bursting of the asset price bubble in the early 1990s. In a break with the past, in 2001 the government of newly elected Prime Minister Koizumi presented a broad strategy to address Japan’s fundamental economic problems. This strategy encompassed banking reform, fiscal consolidation, and corporate restructuring and deregulation.

Emerging Markets in Asia

In emerging markets in Asia, activity has picked up markedly since the beginning of the year, with industrial production and exports rebounding. With second quarter data continuing to exceed expectations, regional GDP growth is projected to increase to 6 percent in 2002 and to remain at that level in 2003. However, the outlook remains highly dependent on external developments, including the possibility of a slower-than-expected recovery in the United States and Europe. Asia is also relatively vulnerable to higher oil prices that may arise if the security situation in the Middle East continues to deteriorate. The impact of the recent turmoil in financial markets has so far been moderate. Except in China, Hong Kong SAR, and Malaysia, regional currencies have risen against the USD since late March. Among the newly industrialized economies, the expansion is so far best established in Korea, driven by buoyant domestic demand and also, more recently, by

Box 1. Real GDP growth in transition countries

The impact of the global slowdown on transition countries has been relatively mild and they are now reaping some of the benefits from earlier implemented reforms in the form of greater macroeconomic stability and sustained growth. The average growth of the transition economies for the last 4 years was 3.0-3.5 percent.

		1995	1996	1997	1998	1999	2000	2001	2002
Central eastern Europe and the Baltic states	Croatia	6.8	6.0	6.5	2.5	-0.9	2.9	3.8	3.5
	Czech Republic	5.9	4.3	-0.8	-1.0	0.5	3.3	3.3	2.5
	Estonia	4.3	3.9	9.8	4.6	-0.6	7.1	5.0	4.0
	Hungaria	1.5	1.3	4.6	4.9	4.2	5.2	3.8	4.0
	Latvia	-0.9	3.7	8.4	4.8	2.8	6.8	7.7	4.0
	Lithuania	3.3	4.7	7.3	5.1	-3.9	3.8	5.9	5.2
	Poland	7.0	6.0	6.8	4.8	4.1	4.0	1.0	1.0
	Slovak Republic	6.7	6.2	6.2	4.1	1.9	2.2	3.3	3.5
	Slovenia	4.1	3.5	4.6	3.8	5.2	4.6	3.0	2.7
	CEB	5.4	4.7	5.0	3.6	2.8	4.0	2.5	2.3
South-eastern Europe	Albania	13.3	9.1	-7.0	8.0	7.3	7.8	6.5	6.0
	Bosnia and Herzegovina	20.8	86.0	37.0	9.9	10.6	4.5	2.3	3.0
	Bulgaria	2.9	-9.4	-5.6	4.0	2.3	5.4	4.0	4.0
	FR Yugoslavia	6.1	7.8	10.1	1.9	-18.0	5.0	5.5	3.0
	FYR Macedonia	-1.2	1.2	1.4	3.4	4.3	4.6	-4.1	2.0
	Romania	7.1	3.9	-6.1	-5.4	-3.2	1.8	5.3	3.5
	SEE	6.4	3.5	-0.5	-0.7	-3.4	3.6	4.5	3.6
Commonwealth of Independent States	Armenia	6.9	5.9	3.3	7.3	3.3	6.0	9.6	8.0
	Azerbaijan	-11.8	1.3	5.8	10.0	7.4	11.1	9.9	8.8
	Belarus	-10.4	2.8	11.4	8.4	3.4	5.8	4.1	3.0
	Georgia	2.4	10.5	10.8	2.9	3.0	2.0	4.5	3.5
	Kazakhstan	-8.2	0.5	1.7	-1.9	2.7	9.8	13.2	7.6
	Kyrgyz Republic	-5.4	7.1	9.9	2.1	3.7	5.1	5.3	2.0
	Moldova	-1.4	-5.9	1.6	-6.5	-3.4	2.1	6.1	3.5
	Russia	-4.1	-3.4	0.9	-4.9	5.4	8.3	4.9	4.1
	Tajikistan	-12.5	-4.4	1.7	5.3	3.7	8.3	10.3	7.0
	Turkmenistan	-7.2	-6.7	-11.3	5.0	16.0	17.6	12.0	13.5
	Ukraine	-12.2	-10.0	-3.0	-1.9	-0.2	5.9	9.1	4.5
	Uzbekistan	-0.9	1.6	2.5	4.4	4.1	4.0	4.5	2.5
	CIS	-4.9	-3.4	1.0	-3.7	4.5	7.9	5.9	4.4
Countries in transition		-0.2	0.1	2.3	-1.0	3.0	5.5	4.2	3.4
Mongolia		6.3	2.4	4.0	3.5	3.2	1.1	1.0	3.9

However, in 2002, economic growth in most transition countries has slowed compared to the previous year, and especially, this tendency was greater in the countries of central eastern Europe and the Baltic states (CEB). (Their real GDP growth was lower than the other transition economies and was 2.5 percent in 2001, 2.3 percent in 2002.)

The CEB economic performance has been negatively affected by slowdown of the EU economy, their main export market, and the weak economy of the largest country in the region, Poland, caused by domestic factors.

The outlook for the southeastern Europe (SEE) is more favorable than at any time as a result of regulation of Balkan's conflict among nations and widened cooperation within the region. The real GDP growth in SEE was negative before 1999, and the growth for the last 3 years has reached 3.6-4.5 percent.

In SEE, the key question is whether countries participating in the Stability Pact for South-eastern Europe can capitalize on the new-found political stability, and convince not only themselves but also the outside world that they now can constitute a region that is worthy of investment. For some countries, official grants and private sources of income from abroad will continue to play an important, though diminishing, role. In this respect, some countries are similar to our country.

In the case of Commonwealth of Independent States (CIS), many countries continue to grow at a quite a rapid pace, but from a low level. Real GDP growth was negative before 1995 for all CIS countries and it has been positive since 2000.

This region's recovery has been aided by the strong domestic demand in the region's largest economy, Russia, with substantial linkages to the rest of the CIS.

The major oil and gas exporters, Russia and the Caspian nations, continue to be vulnerable to the sharp decline in oil and gas prices. While such a turnaround does not seem likely in the near future, oil and gas prices are traditionally highly volatile.

In Armenia, Georgia, the Kyrgyz Republic, Moldova and Tajikistan, where income per capita is low, external debts have increased dramatically during the last years.

Although Mongolia is at the same level with other transition countries according to the main macroeconomic indicators, it tends to have a drag on real growth due to unfavorable weather conditions. In 2002, owing to the recovery signs of the industrial sector, real GDP growth reached to 3.9 percent with an increase of 2.9 points from 2001.

In order to promote less nature and weather dependent employment and to expand the variety of export items, it is vital to develop the tourism, IT, and mining sectors.

exports.

Latin America

In contrast with signs of strengthening in most other regions, economic and financial conditions in Latin America deteriorated in the first half of 2002 and remain fragile. Regional output contracted by 2.5 percent in the first, and is expected to fall in 2002 as a whole. Much of the output decline in Latin America during the first few months of 2002 was accounted for by the crisis in Argentina and its spillover effects on some neighboring countries. Argentina is experiencing an economic contraction of unprecedented magnitude in its economic history, with the cumulative fall in output in the four years to the end of 2002 expected to be over 20 percent. GDP fell 6 percent in the first quarter, with consumption and especially investment contracting sharply, and unemployment increasing to about 25 percent. Some countries neighboring Argentina—notably Uruguay, Paraguay and Bolivia—have also been affected by the Argentine crisis through trade, tourism, and financial channels. Having resisted direct contagion from the crisis in Argentina reasonably well, Brazil faced a sharp deterioration in financial market sentiment in the second quarter. The decline in market confidence—reflected in a sharp fall in the Brazilian Real and widening of bond spreads—appeared to be driven largely by uncertainties about the prospective policy stance following the October 2001 presidential elections. Many other countries in Latin America—including Ecuador, Peru, and Venezuela—have also experienced a sharp rise in risk perceptions since the first quarter. As in Brazil, this deterioration appears to reflect the interactions among increased regional uncertainties, domestic political tensions, and underlying economic vulnerabilities that stem in most cases from the level and composition of public debt. In all of these countries, fiscal adjustment—involving expenditure restraint and improvements in revenues—is the core policy requirement for reducing economic vulnerabilities. In 2003, the improvement in global growth should provide some support for regional activity over the coming year.

European Union Candidates

Growth among the EU candidates in central and Eastern Europe and the Baltic region has, in general, been relatively well sustained during the global slowdown. For most of these countries, growth rates of at least 2.5-4.5 percent are expected in 2002 and that with further strengthening is projected for 2003 as the global economy improves. Regional activity has been supported by strong inflows of foreign direct investment, providing the major source of external financing and helping sustain domestic demand. Such inflows, with no doubt, reflect the benefits of generally stable and credible macroeconomic policies, together with market-friendly business climates. In addition, domestic demand has been boosted in most countries by robust wage growth, falling inflation, and—in some cases—sizable fiscal stimulus packages. While the policies needed to sustain and strengthen, the growths differ around the region, depending on current cyclical conditions

Figure 4. Consumer prices of countries in transition

Figure 5. Real GDP of countries in transition

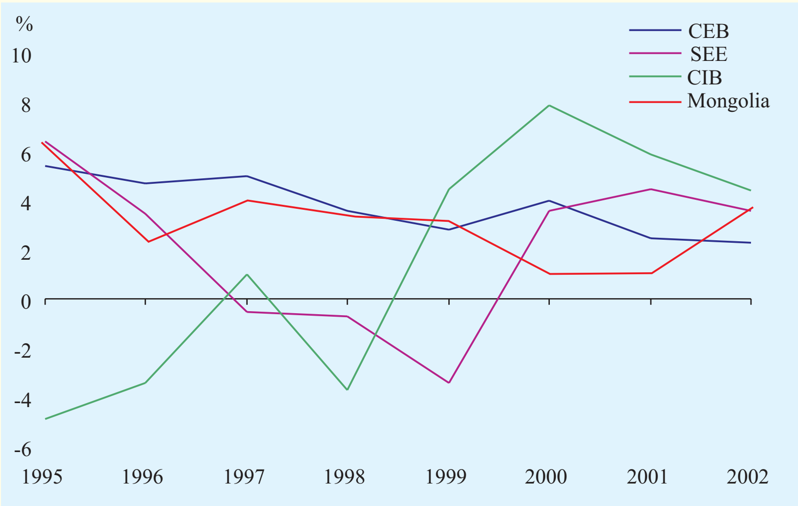
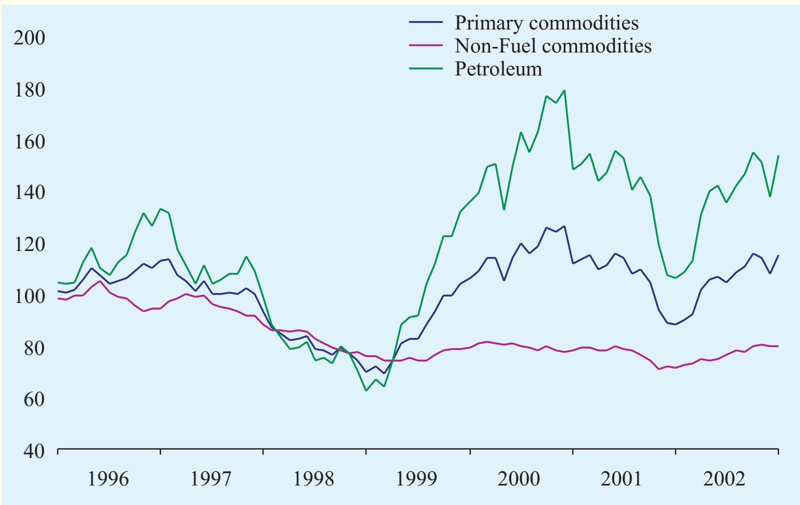


Figure 6. World commodity price index (1995=100)



and areas of prospective pressure, fiscal restraint—with supportive structural reforms—remains a priority in most countries. Over the short term, this would contribute to a better balance between macroeconomic policies; and, over the medium to long term, it would help accommodate ongoing spending pressure associated with EU and NATO accession, as well as rising public pension obligations.

Russia

Real GDP is projected to grow by 4 percent in 2002, and could be somewhat higher if the increase in economic activity is sustained throughout the fourth quarter. The impetus to GDP continues to come mainly from domestic consumption. However, a weakening in fixed investment and in the foreign trade balance has had a negative effect on GDP growth. The negative contribution of the foreign sector reflects the large appreciation of the Ruble, as well as the slower growth of income in key trading partners. As to fixed investments, the deceleration is most likely caused by a decline in corporate profitability. The slow reduction in inflation is continuing. In terms of consumer prices, the government's end-year target of inflation of 14 percent will be missed by a small margin. The inflation rate in Russia is well above the rates in most other countries in the region.

Commonwealth of Independent States (CIS)

The impact of the global slowdown on CIS countries has been relatively mild. This region's resilience has been aided by strong domestic demand in Russia—the region's largest economy, with substantial linkages to the rest of the CIS. During 2002, however, notwithstanding strengthening external demand, GDP growth across the region is expected to moderate, reflecting two main factors. First, growth in Russia and, to a lesser extent, Kazakhstan has slowed as a result of lower oil revenues, second, agricultural growth—which was very high in 2001 owing to recovery from drought in 2000—is projected to return to more normal levels. In general, however, with the exception of some less advanced reformers, GDP growth is expected to remain solid, supported by continued global recovery and the firming of oil prices. In Russia and other more advanced reformers, domestic demand is expected to remain supportive of economic activity, mainly owing to strong private consumption and earlier progress made with reforms. In contrast, growth in the less advanced reformers is generally expected to lag behind, reflecting macroeconomic instability, lack of corporate restructuring, and the unfavorable investment climate. On the external side, the regional current account surplus is projected to decline in both 2002 and 2003. This is mainly because of a lower surplus in Russia, driven by strong domestic demand and real appreciation of the Ruble. Large deficits are expected to persist in many countries, particularly among the region's poorest economies, where the level of external debt remains a serious threat to fiscal and external sustainability (Georgia, Kyrgyz Republic, Moldova, and Tajikistan). While inflation has continued to decline across the region, aided by progress in fiscal consolidation, it remains an area of

Box 2. Comparison of inflation level of the transition economies

The 1990's were remarkable years for the former socialist countries as they started the process of transition from centrally planned to market oriented economy. As a consequence of the socialist regime collapse, all the formerl economic relations were no longer applicable; therefore, economic changes and reforms to comply with the new system were required. Although these countries faced hyperinflation at the early stage of the transition, they were able to reduce inflation to lower levels and create a favorable environment for further economic development through successful implementation policies that were suited to their conditions with assistances from the international organizations

More rapid economic growth and the sharp inflation decline of the CEB countries are directly related to their major export market, the EU. Although global economic growth has slowed over the past two years and most of Europe was affected by severe flooding, economy in the region is remaining stable and inflation is still at low level. By the end of 2002, countries with the highest inflation were Slovenia (7.4%) and Hungary (4.9%) while countries with the lowest were Czech Republic (2.3%), Poland (2.1%), and Baltic states (0.9-2.3%).

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
South-eastern Europe												
Albania	35.5	226.0	85.0	22.6	7.8	12.7	33.2	20.6	0.4	0.1	3.1	5.3
Bulgaria	333.5	82.0	3.0	96.3	62.0	123.0	1082.0	22.2	0.7	9.9	7.4	6.1
FR Yugoslavia	121.0	9237.0		3.3	78.6	94.3	21.3	29.5	37.1	60.4	91.3	21.5
FYR Macedonia	114.9	1664.4	338.4	126.5	16.4	2.5	0.8	2.3	-1.3	6.5	5.3	3.6
Romania	170.2	210.4	256.1	136.7	32.3	38.8	154.8	59.1	45.8	45.7	34.5	22.7
Average (SEE)	155.0	2284.0	188.1	77.1	39.4	54.3	258.4	26.8	16.5	24.5	28.3	11.8
Central eastern Europe and the Baltic states												
Croatia	123.0	665.5	1517.5	97.6	2.0	3.5	3.6	5.7	4.2	6.2	4.9	2.3
Czech Republic	52.0	11.1	20.8	9.9	9.1	8.8	8.5	10.7	2.1	3.9	4.7	2.3
Estonia	210.5	1076.0	89.8	47.7	29.0	23.1	11.2	8.1	3.3	4.0	5.8	3.8
Hungaria	35.0	23.0	22.5	18.8	28.2	23.6	18.3	14.3	10.0	9.8	9.2	4.9
Latvia	172.2	951.2	109.2	35.9	25.0	17.6	8.4	4.7	2.4	2.6	2.5	2.3
Lithuania	224.7	1020.5	410.4	72.1	39.6	24.6	8.9	5.1	0.8	1.0	1.3	0.9
Poland	70.3	43.0	35.3	32.2	27.8	19.9	14.9	11.8	7.3	10.1	5.5	2.1
Slovak Republic	61.2	10.0	23.2	13.4	9.9	5.8	6.1	6.7	10.6	12.0	7.3	3.1
Slovenia	117.7	207.3	32.9	21.0	13.5	9.9	8.4	7.9	6.1	8.9	8.4	7.4
Average (CEB)	118.5	445.3	251.3	38.7	20.5	15.2	9.8	8.3	5.2	6.5	5.5	3.2
Commonwealth of Independent States												
Armenia	274.0	1346.0	1822.0	4962.0	175.8	18.7	14.0	8.7	0.7	-0.8	3.2	1.4
Azerbaijan	107.0	912.0	1129.0	1664.0	412.0	19.7	3.5	-0.8	-8.5	1.8	1.5	2.8
Belarus	94.1	970.8	1190.2	2221.0	709.3	52.7	63.8	73.2	293.8	168.9	61.4	41.4
Georgia	79.0	887.4	3125.4	15606.5	162.7	39.4	7.1	3.6	19.2	4.1	4.7	0.1
Kazakhstan	78.8	1381.0	1662.3	1892.0	176.3	39.1	17.4	7.3	8.3	13.2	8.4	6.0
Kyrgyz Republic	85.0	855.0	772.4	228.7	40.7	31.3	25.5	12.0	35.8	18.7	7.0	2.5
Moldova	98.0	1276.4	788.5	329.7	30.2	23.5	11.8	7.7	39.0	31.3	9.8	9.0
Russia	92.7	1526.0	875.0	311.4	197.7	47.8	14.7	27.6	86.1	20.8	21.6	16.3
Tajikistan	112.0	1157.0	2195.0	350.0	609.0	418.0	88.0	43.2	27.6	32.9	38.6	12.8
Turkmenistan	103.0	493.0	3102.0	1748.0	1005.3	992.4	83.7	16.8	24.2	8.3	11.6	9.6
Ukraine	91.0	1210.0	4734.0	891.0	377.0	80.0	15.9	10.5	22.7	28.2	12.0	1.6
Uzbekistan	82.2	645.0	534.0	1568.0	304.6	54.0	58.9	17.8	29.1	24.2	26.2	22.8
Average (CIS)	108.1	1055.0	1827.5	2647.7	350.1	151.4	33.7	19.0	48.2	29.3	17.2	10.5
Mongolia	52.7	325.5	183.0	66.3	53.1	44.6	20.5	6.0	10.0	8.1	8.0	1.6

* preliminary (source: European Bank for Reconstruction and Development)

Average inflation of the SEE countries is similarly high to that of the CIS countries because of Yugoslavia and Romania. In the region, Albania, with lower level of inflation (5.3%), is on a course to record its fifth successive year of high growth, but the main sources of growth are the large-scale grants from abroad. Although Yugoslavia and Romania continue to make a good progress in the macroeconomic performance and their annual inflation levels are declining, their inflation still remain at the high level of over 20 percent.

In the case of the CIS countries, economic growth is likely to continue, but at varying speed depending on natural resources and other factors. For instance, the two slowest performers in the region such as Belarus (41.4%) and Uzbekistan (22.8%) have the highest inflation rate. Russia is on its fourth year of sustained growth; however, its inflation remains relatively high.

In recent years, as a result of successful implementation of the monetary and financial policies, the Mongolian economy has been stabilized, inflation declined to one-digit level (1.6%), which is similar to the average inflation in the CEB.

concern in Russia and a number of the less advanced reformers.

People's Republic of China

The economy of the People's Republic of China should continue to grow at a robust pace over the next few years. Economic growth is forecast at 7.4 percent in 2002, led by strong domestic consumption and demand. The industry and service sectors should grow by 7-9 percent and the agricultural sector by 2-3 percent. Increased domestic consumption and continuing solid economic growth will exert some upward pressure on prices; however, inflation seems to be moderate. The fiscal deficit will remain at around 2 percent of GDP and considerable public resources will be needed to reduce the non-performing loans of the state-owned commercial banks and to support the implementation of social security reforms. Money supply should continue growing by 13 percent in 2002. In an attempt to stimulate the economy, the People's Bank of China reduced its deposit rate by 0.25 percent and lending rate by 0.5 percent in early 2002. Aided by continued strong inflows of foreign direct investment, the balance of payments has strengthened remarkably, with international reserves rising by 31 billion USD in the first half of the year. Exports are estimated to grow at the rate of 6 percent, and with WTO accession, imports will continue to grow faster than exports, and the trade and current account surpluses will gradually decline. However, the decline in the current account surplus will be partly offset by foreign investment inflows as the Government further opens up the economy to fulfill WTO commitments. Over the medium term, both growth and fiscal sustainability depend importantly on structural reforms, especially making further progress toward developing a sound and commercial oriented banking system, and completing the restructuring of state enterprises.

1.2. World market prices and interest rates

Several key events during 2002 have had a strong influence on commodity prices and interest rates. Bankruptcies of giant multinational corporations at the end of 2002 in the USA (i.e. Enron, World Com, Arthur Andersen) caused a sustained drop in the major stock exchange indices such as the NASDAQ and Dow Jones. Consequently, world stock markets dropped by 40 percent from the previous year.

The world's largest economy, the USA, brought domestic interest rates down to 1.7 percent by 2002 in response to decisions by the Federal Reserve Board to implement 11 consecutive cuts. The interest rate at this level is the lowest of the last 40 years, and it is explained by the Federal Reserve Bank's emphasis on improving overall economic growth.

In Europe, the European Central Bank kept interest rates relatively stable by adjusting interest rate levels 4 times in 2002. European Central Bank interest rates consist of the overnight loan rate, overnight deposit rate and refinancing rate.

Figure 7. World market price of gold

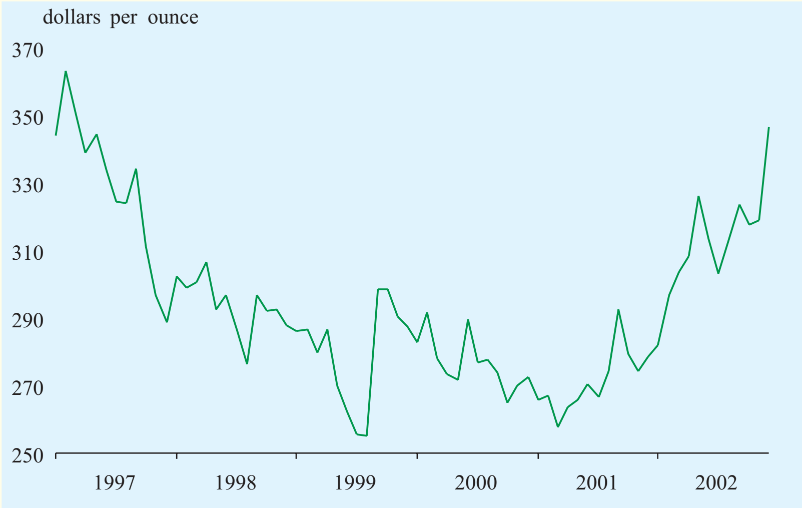


Figure 8. World market price of copper

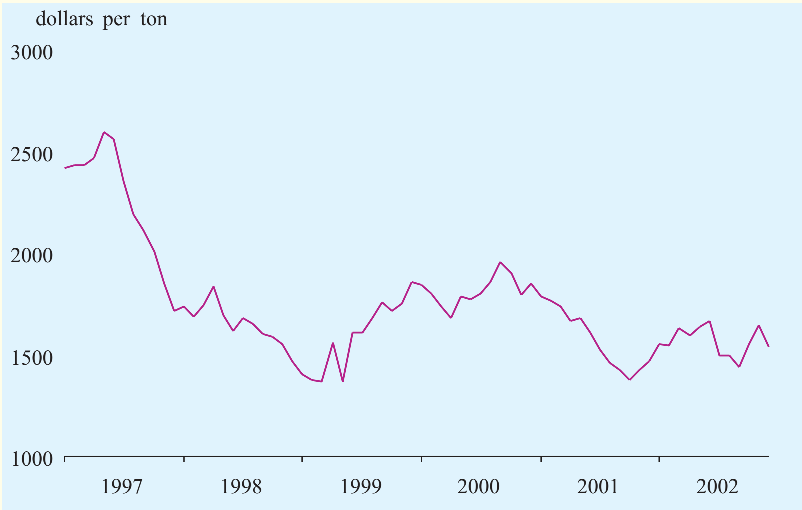
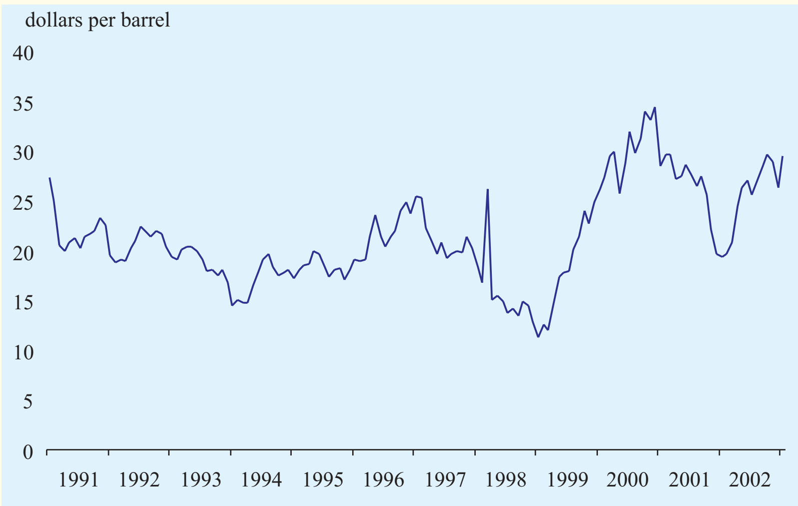


Figure 9. World market price of crude oil



1.3. World market commodity prices

The main commodity prices in the world markets have a substantial influence on the world economy. Although commodity prices in the world market were reasonably low in 2001, the pick-up in early 2002 reflected improved economic performance. In the second quarter of the reporting period commodity prices have been stabilized.

In 2002, political events in the Middle East and Venezuela, as well as demand trends in world markets contributed to fluctuations in oil prices. In the beginning of the reporting period, world economic trends, especially political circumstances in the Middle East, pushed OPEC to raise the oil price to 22-28 USD per barrel. Despite the increase, oil prices remained well below their 2000 high. The price of oil (per barrel) averaged 17.3, 26.1, 18.2, and 26.2 USD in 1999, 2000, 2001, and 2002 respectively. The danger remains of a hike in oil prices to offset the poor share performance of Middle East countries, and this would likely depress world economic activity. Oil and oil product prices in 2002 dropped to the same level as that for the previous year, reflecting a temporary supply cut from Iraq. But the non-members of OPEC, the biggest oil supplier countries, Russia and Norway, increased their production in the third quarter of 2002; and Russia for the first time exported oil to the USA in June.

Metal commodities prices were reasonably stable, despite price fluctuations in response to a period of weak demand and excess supply. In the first half of the reporting period, gold consumption decreased by 17 percent in the jewelry market to 1.301 tons. Gold prices increased somewhat in the second quarter of 2002, as higher gold prices in India—the biggest consumer of gold in the world—and a decrease in the volume of production by gold miners, offset a diminishing interest in holding gold due to the fear from terrorism.

The copper world market price has been solely demand driven, and the International Copper Research Center announced that in 2002 refined copper production exceeded demand by 105.0 thousand tons. Although this surplus in copper was lower than that for 2001 by about 536.0 thousand tons, the world's top 9 miners officially announced a decrease in their planned production by 740.0 thousand tons for subsequent years.

2. BRIEF REVIEW OF DOMESTIC ECONOMY

2. BRIEF REVIEW OF DOMESTIC ECONOMY

2.1. General overview

During the reporting period, the Government of Mongolia's policies were aimed towards providing macroeconomic stabilization, promoting growth, improving and deepening the structural changes in the banking and financial sector, starting reforms in the structure of budget institutions, encouraging foreign and domestic investment, and intensifying the process of state entities' privatization.

The Government declared the year 2002 as the "Investment Support Year" and established an agenda to strengthen the legal and economic environment for investment. As a result, 77.8 million USD of direct investment inflows and 40 million USD of capital inflows into the banking and financial sectors were attained.

In September 2002, the Government of Mongolia in partnership with the World Bank organized an investor's forum in Ulaanbaatar. While the first two investors forums focused on mining and exploration (1997) and later on the agriculture and tourism sectors (1998), the 2002 forum focused on a wide array of industries including exploration, mining, agriculture, tourism, information technology, and infrastructure. The forum was designed to attract investors in these industries, which are the core areas for the Mongolian economy.

Privatization of the Trade and Development Bank, Mongolia's largest commercial bank, contributed to the inflow of foreign direct investment in the financial sector. In May of 2002, 76 percent of the state's share in Trade and Development Bank was bought by the joint consortium of Switzerland's " Banca Commerciale Lugano" and the USA's "Gerald Metals" for 12.23 million USD. The joint consortium plans to invest about 28 million USD in the next 2 years to develop and enhance the bank's services to current international standards. To do this, the consortium has agreed to work with the Netherlands' ING Bank, one of the world's top 25 banks, in sharing management responsibilities.

In 2002 Mongolia also organized a donor forum in Ulaanbaatar, in which donor countries pledged 333 million USD to Mongolia – including 184 million USD on concessionary terms and 140 million USD in assistance loans.

Unusually severe winter weather conditions resulted in the loss of 2.9 million head of livestock, while the subsequent summer drought affected crop yields, depressing agricultural output. On the other hand, industrial production increased by 4.7 percent from that of the previous year - 22.1 increase in manufacturing and 4.0 in utilities production. Total GDP growth for 2002 is estimated to be at 3.9 percent. In the absence of unfavorable conditions like extreme cold, drought and world economic downturn, it is estimated that

Table 2. Annual GDP growth (at constant prices)

	1996	1997	1998	1999	2000	2001	2002
Gross Domestic product	2.4	4.0	3.5	3.2	1.1	1.0	3.9
Industry	-3.6	-3.3	4.2	1.1	2.7	16.5	4.7
Agriculture	4.4	4.3	6.4	4.2	-14.9	-18.5	-10.5
Construction	2.6	-2.7	-1.1	1.6	-14.6	10.8	11.1
Transport, communication	11.2	5.8	7.4	6.1	25.2	14.9	17.1
Trade	0.3	17.1	-3.1	1.3	26.1	9.8	12.3
Service	7.3	-0.6	1.7	5.4	2.7	-0.2	6.8

the economy would have grown by 6 percent. In order to reduce the dependence on climate, intensification of agriculture and farming methods are needed.

During the reporting year new laws designed to promote economic growth were adopted. These laws dealt with issues such as “Land ownership”, “Land ownership by the citizens of Mongolia”, “Securities market”, “Non-banking financial institutions”, and “Public Sector Financing and Management”. In addition, the establishment of a central payment system provided quicker processing of government related payments, and offered centralization of the government fund for loans and assistance from the government. This in turn has clarified responsibilities for budget administrators in managing cash flows.

The implementation of a regional development strategy created the legal and economical framework for establishing regional centers concentrated in cities and towns to take a full advantage of economies of scale, in turn reducing unnecessary budget costs.

A stable macroeconomic environment, steady prices for goods and services, and an increase in the range of financial instruments and services have all contributed positively to overall growth of the economy. The consumer price index (inflation rate) for 2002 was 1.6 percent (the lowest since 1991), the nominal exchange rate for USD was fairly stable throughout the year, and industrial growth increased by 4.7 percent compared to the previous year. All of these contributed to economic growth and stabilization.

A broader range of financial services offered by banks, along with intensified competition amongst financial services providers, and the introduction of various new financial products and services, have amplified capital inflow into the banking sector for the past several years. Some of the new financial services introduced included internet banking and telephone banking. In addition, non-cash payment instruments such as those provided by MasterCard and VISA, introduced in 2001, received wide acceptance among consumers and have a steadily expanding number of users. Some banks also introduced new financial instruments aimed at rural and low-income borrowers, lowering the cost of credit to these marginalized citizens.

Non-banking financial institutions are playing an important role in the economy by becoming important financial intermediaries to small businesses. Furthermore, they have played a significant role in driving down loan interest rates. The first non-banking financial institution was founded in 1999, and by 2002 66 of these institutions had been established.

Although the money supply (M2) increased by 42.0 percent, the inflation rate remained low at 1.6 percent. The correlation between total money (M2) and GDP, which shows the level of financial intermediation in the economy, was 25.4 percent in 2000, 27.3 percent in 2001 and 38.2 percent in 2002.

With an improvement in the quality of banks' loans, the public confidence in banks has increased. In 2002 savings and loans volumes reached unprecedented levels compared to the past 12 years. The fact that 52.1 percent of all saving deposits are denominated in Togrog shows the increased consumer and business confidence in the domestic currency. By the end of the reporting year, savings deposits and loans were 22.9 and 18.8 percent of GDP, respectively. Having learned from the banking crises of 1996-1999, financial activities of the banks began to stabilize in the last half of 1999. By the end of 2002 nonperforming loans were 16.6 billion Togrogs, 7.2 percent of all loans and lower by 0.8 and 16.7 points from those of 2001 and 2000, respectively.

Compared to the previous year, however, the trade deficit doubled, reaching 12.1 percent of GDP. The trade deficit still has been financed through direct foreign investment and medium and long-term loans. At the end of the reporting year, foreign currency reserves reached 225.9 million USD, enough to cover 15.6 weeks of imports.

Fiscal revenue for 2002 amounted to 466.5 billion Togrogs, up by 42.0 billion from the previous year, and fiscal expenditure rose by 66.5 billion Togrogs to reach 536.5 billion Togrogs.

The Government's "National Employment Support Program", in line with the International Labor Organization's "Potential Labor" strategy was approved in 2002. The program is being implemented in a two-step approach during 2002-2010, based on the principles of labor value, policy implementation, and social consequences. In 2002 salaries of 125.8 thousand state employees were increased by 20-22 percent, pensions by 20 percent, and compensation for childcare by 15 percent. As a result of increased pay, determination of a state employee's salary changed from total time worked to overall productivity.

During May 16-18, 2002, the President of the World Bank, James Wolfenson, visited Mongolia to exchange views and observations on the effect of the world economic downturn

Figure 10. Real GDP growth rate

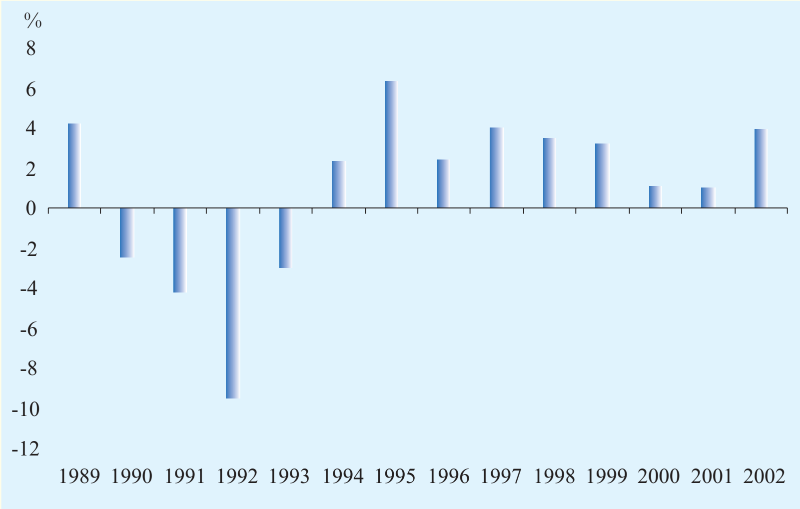


Figure 11. Inflation rate

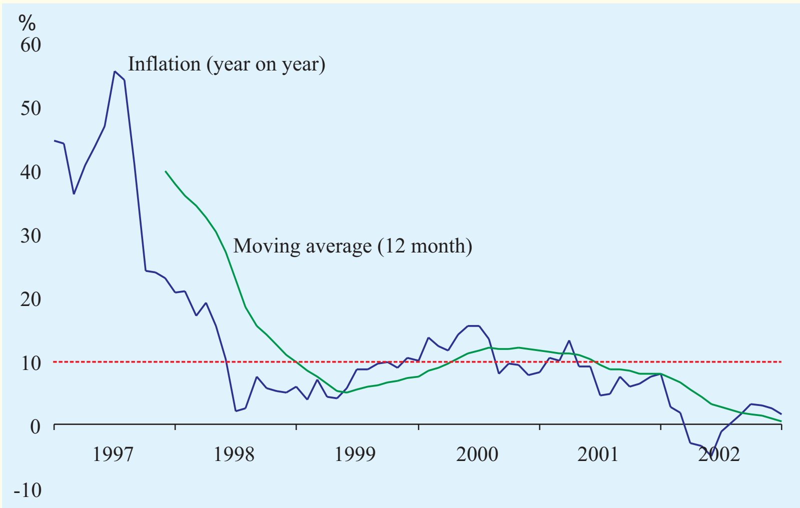
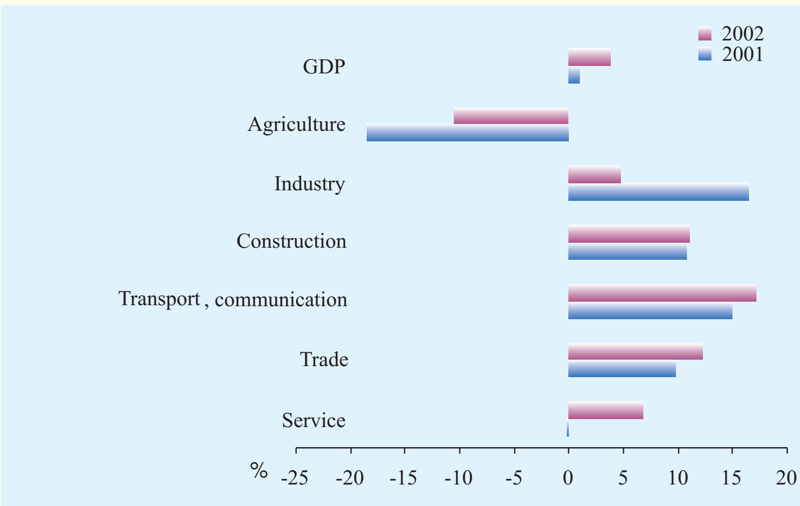


Figure 12. Composition of GDP (by sector)



on the Mongolian economy and the severe winter disasters that had hit the country for several prior years. Also, the visit by the Russian Prime Minister for the first time in 30 years had enormous political and economic impact. During Prime Minister M. Kasiyanov's visit, subjects discussed included increasing the number of Mongolian university students studying in Russia, inviting Russian companies to invest in Mongolia and extending the contract term of the "Erdenet" copper mining factory, as well as resolving issues relating to debt repayment, and the state of Russian in Mongolia. Several contracts were concluded and general dialogue strengthened.

Industry

During the reporting year, total industrial production was 174,6 billion Togrogs (1995 base price), which is more than the previous year's output by 7.8 billion Togrogs or by 4.7 percent. This is due to a 22.1 percent increase in the production sub-sector, and 4.0 percent increase in the production of electricity, thermal energy, and water distribution. However, mining and natural resources exploration fell by 6.8 percent.

New production such as textile manufacturing, leather tanning, publishing, sound recording, iron and metal manufacturing, medical equipment production, clock and furniture manufacturing have all contributed to an overall increase in the industrial base of Mongolia.

Compared to the previous year, trading share of products in mining and natural resources sector fell by 1.3 points, utilities by 0.7 points, and the production sub-sectors by 2.0 points.

Of 179 commodities included in the statistical compilation list, production of 91 products including molybdenum concentrate, electricity, thermal energy, cement, chalk, metal mould, gold and silver jewelry, books, de-haired cashmere, textiles, flour, milk and milk products, alcohol beverage, soda drink production increased.

In addition, cigarettes, aluminum, gasoline A-76, diesel fuel, mazut, construction materials, and tiles for pedestrian pavement were introduced in 2002.

During the reporting year 2.5-billion kilowatt of electricity, 5.3 million tons of coal, and 7.1 million gkal of thermal energy were produced, about 4.1 percent higher than the last year for electricity, 3.4 percent for coal exploration, and 7.1 percent for thermal energy.

In 2002 products valued at 677.9 billion togrogs were sold in both foreign and domestic markets.

Also during the reporting year, discovery of a large gold and coal-exploring site in Oyuntolgoi, Umnugobi aimag was publicly announced.

Figure 13. Consumer Price Index

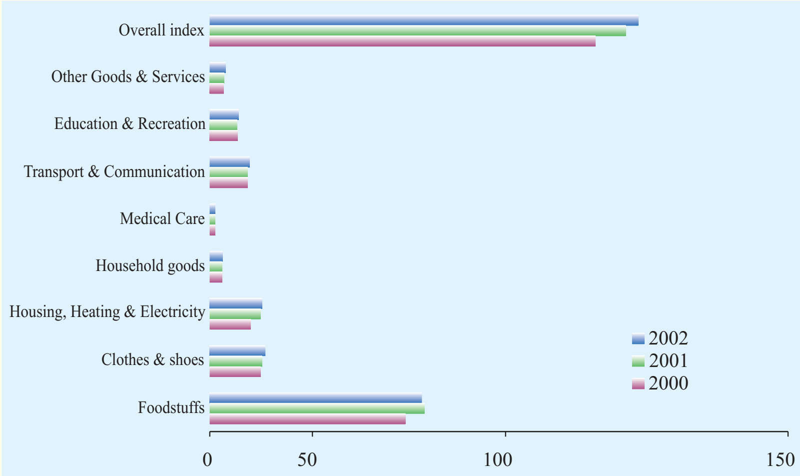


Figure 14. Gross industrial output growth (at 1995 prices)

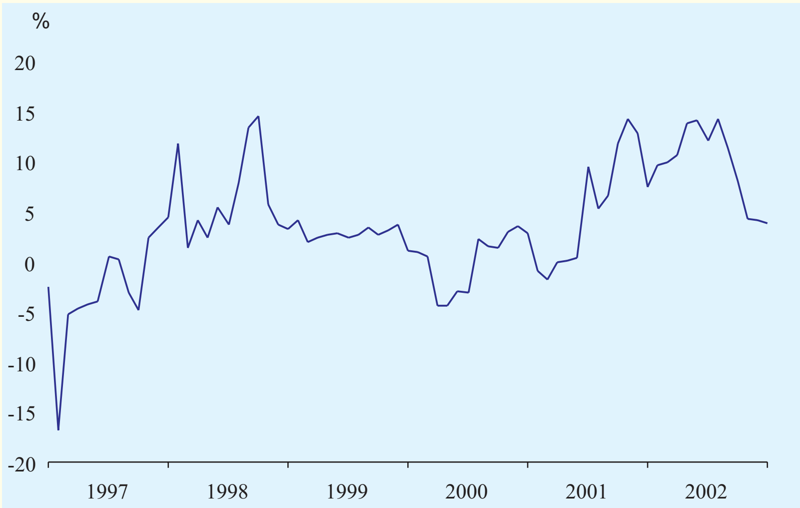
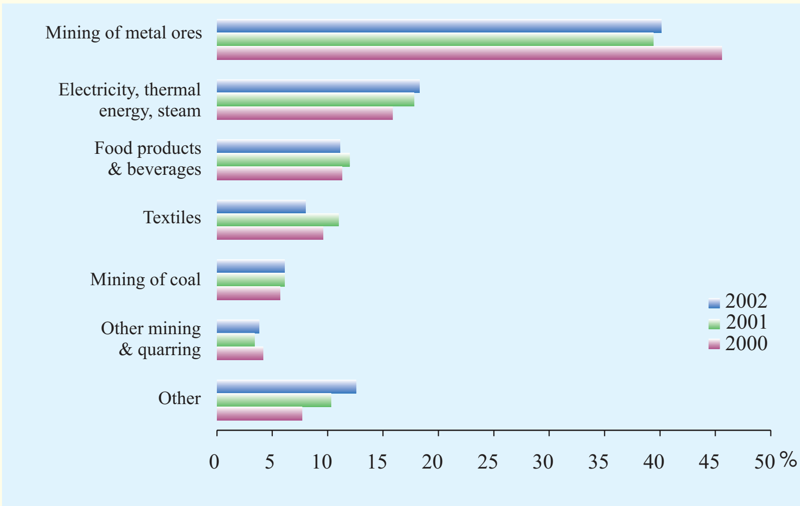


Figure 15. Gross industrial output (by structure)



Agriculture

The severe weather conditions that have affected Mongolia for the past several years, continued in 2002. As a consequence of this calamity, crop yields declined and 2.9 million head of livestock were lost.

Livestock losses due to the severe weather were estimated at 23.7 million heads, including 252.2 thousand camels, 2.0 million horses, 2.1 million cattle, 10.5 million sheep, and 9.1 million goats. The total number of livestock fell by approximately 9.2 percent or 2.4 million from the prior year. If we consider the livestock reduction by type, it shows that camels decreased by 11.6 percent (33.0 thousand), horses by 10.1 percent (221.5 thousand), cattle by 9.7 percent (200.1 thousand), sheep by 11.7 percent (1400.7 thousand), and goats by 5.6 percent (535.4 thousand).

The female portion of the livestock herd accounts for 67.9 percent or 7.7 million, and these have generated 6.8 million offspring in 2002. This is lower than that of last year by 2.2 percentage points, reflecting a 0.6-9.6 point decline in sheep, camel and goat's brood. However, cattle and horse's brood were higher by 6.4-13.4 points than in 2001. Of all offspring produced, 87.8 percent or 6.8 million survived, and the number of survived is lower by 562.1 thousand, but the percentage of survivals is 8.6 percent higher compared to the previous year.

During the reporting year 125.9 thousand tons of wheat, 51.9 thousand tons of potatoes, and 39.7 thousand tons of vegetables were harvested. Wheat yield decreased by 11.5 percent or by 16.4 thousand tons, and yield for potatoes fell by 10.6 percent or 6.1 thousand tons.

Of the total crop, 34.9, 21.3, 13.1, 12.5, and 10.1 percent were harvested in Selenge, Bulgan, Tuv, Ulaanbaatar, and Hovd aimags, respectively. Selenge aimag harvested 23.2 percent of the total vegetable crop, Ulaanbaatar 17.6 percent, Darhan-Uul aimag 12.0 percent, and Tuv aimag 9.8 percent.

On an average, 570 kg of wheat and 5640 kg of potatoes were produced per hectare, compared with 710 kg and 6560 kg, repectively for the previous year.

753.8 thousand tons of grass and 25.3 thousand tons of livestock supplement feed were prepared in 2002.

Construction

In the reporting year construction companies completed construction and capital repair work valued at 95.3 billion togrogs, 23.4 percent higher than the previous year. Of all

Box 3. Cashmere sector

It is widely recognized that the goat cashmere is the most scarce, expensive raw material and the production of the final products in this sector can be highly efficient. That was the basis condition for establishing the first cashmere factories in the early 1970s.

Initially, at the end of 1977 by the resolution of the Mongolian Government, it was decided to open an experimental cashmere and camel wool-processing factory with the help of Japanese equipment and experts. The first experimental factory had the following main stages and conveyers of production: separating, washing, spinning, and knitting.

The cashmere products of this experimental factory were advertised on the world market and were exported to the USA, Japan, and some European countries. This was the beginning of the GOBI corporation, which was established in 1981. Until the 90s the GOBI corporation was the only cashmere product manufacturer in Mongolia.

During the following 2-3 years after the Government resolution N63 was approved, a number of cashmere processing factories with foreign investment increased sharply. Currently four domestic and 28 Joint-Venture companies are operating on the Mongolian market. / of which 13 are from P.R.of China, 4 from USA, 4 from Japan, 2 from Italy, 1 from Lichtenstein, 1 from Russia and 4 are from domestic invested companies.

The country's total capacity of cashmere refining is 3.3 thousand tons a year according to 12 companies covered research. The data above excludes the companies with Chinese investment; however, the total production capacity has exceeded the amount of cashmere that is being prepared domestically.

Here, we assume that, because the GOBI corporation has the biggest share in the total capacity of the Mongolian cashmere industry, the sales profitability of Mongolian cashmere product was proxied by the GOBI's rate of profitability.

In millions of togrog

	1998	1999	2000	2001	2002
Net sale	16267.6	24389.7	21922.3	12285.0	20397.1
Net profit	3031.2	4205.3	2561.6	-4874.5	-1674.8
Return on sale	18.6	17.2	11.7	-39.5	-8.0
Return on capital	10.5	14.0	7.6	-10.4	-4.4

The rate of profit from each unit of sale has had a tendency to go down for the last years. The main reason to this is the cost of raw material preparation, i.e. the domestic price of cashmere has been constantly increasing independently from the world market price.

It is obvious that the cashmere sector of Mongolia is influenced by the demand for cashmere on the world market, the price on the world market and the cashmere sector of China that has a strong influence on the price. The profitability of cashmere sector has had a tendency to drop during the last few years.

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

work done, 74.7 percent was completed by domestic companies and 25.3 percent by foreign companies. In comparison to the previous year, domestic companies' share of construction work rose by 10.4 billion togrogs and by 7.8 billion togrogs for foreign companies. Also projects like electrical wiring, road and road repair, construction of apartment complexes, hospitals, schools, and dormitories were completed at total cost of 16.1 billion togrogs.

Rapid urbanization has been taking place in Mongolia for the past 10 years. In addition, severe weather conditions of the past several years have created an influx of domestic migration into the cities, resulting in added pressure on social and economic situation. Nonetheless, more and more buildings are being built to meet this ever-increasing demand. For instance, in 2002, 37 apartment complexes for 828 families were built compared to 15 apartment complexes for 275 families in 2001. During the reporting year, corporations like Construction Co., Capital Co., and Golden City Co. drew their first financing by selling bonds and raising 3.0 billion togrogs on the Mongolian Stock Exchange.

Preparations for implementing Asian Development Bank's "Housing Sector Finance" project were completed, and mortgage loans are being distributed through Golomt, Zoos, and Mongol Post banks.

Transportation and Communication

In 2002, 13.5 million tons of goods and 105.7 million (double counted) passengers were carried by all means of transportation. This represents an increase of 1.7 million tons or 14.6 percent for the former, and 7.2 million or 7.3 percent for the latter.

Rail freight accounted for 86 percent of all goods transported, with the remaining 14 percent by auto transportation. In contrast, 95.9 percent of passengers used auto, 3.8 percent used railroad, and 0.3 percent air travel for transportation. Compared to the previous year, goods transported by auto increased by 13.9 percent and auto travel by 7.8 percent. Rail freight and air travel of passengers increased by 14.7 and 5.9 percent, respectively, but rail travel and airfreight fell by 2.9 and 14.7 percent respectively. International rail travel rose by 1.6 percent or by 2.4 thousand passengers, in contrast to 3.1 percent or 122.8 thousand passenger increase in domestic travel, but domestic air travel fell by 2.0 percent or by 2.4 thousand passengers. Domestic air travel makes up one-third of all air travel, while 95 percent of all rail travel is for domestic travel, and only 5 percent is for international travel.

Total revenue in 2002 for the transportation sector was up by 26.5 percent reaching 152.9 billion togrogs, of which 56.7 percent was derived from rail transportation, 31.6 from air, and 11.7 percent from auto transportation.

In 2002, the communication sector generated revenue equal to 38.7 billion togrogs, of which 14.0 billion togrogs came from households. This is 2.2 billion togrogs or 11.6 percent more than that of 2001. Also during this year, 7.0 thousand new telephone lines were installed, driving total telephone lines up by 5.8 percent. However, total radio receivers fell by 6.9 percent (8.4 thousand).

2.2. Government Finance

In the reporting year, the budget revenue amounted to 466.5 billion togrogs (37.9 percent of the GDP), budget expenditure to 536.5 billion togrogs (43.6 percent of the GDP), and the current account surplus to 51.7 billion togrogs (4.2 percent of the GDP). On the other hand, the total budget deficit was 70 billion togrogs, 5.7 percent of GDP. This is 1.1 points

Box 4. Comparison of transition economies' budget surplus/deficit to the GDP

Although the world economy has been unstable and may further worsen because of possible terrorist attacks, war, and the economic collapse in Argentina of the recent year, the main economic indicators such as economic growth, inflation and budget surplus/deficit of the transition countries, have been relatively good. Mongolian economy has been stable and budget indicators have been improving as well, which can be seen from the table above. The sharp increase of the budget deficit between 1995-1996 can be explained by the fact that Mongolia adopted new budget revenue, expenditure, surplus/deficit calculation approach to comply with the internationally accepted standards in 1996. Therefore, when comparing budget indicators of Mongolia to the other 27 transition economies, it is more appropriate and reliable to use data from the years 1996 to 2002. General fluctuation trend has been similar since 1999. However, the budget deficit of those transition economies, and especially, the deficits of the countries of Central eastern Europe and Baltic states (CEB) tended to increase in 2002. Researchers consider the main reason for this slow economic growth in these countries as the economic trough of the European Union, the major export partner of the CEB countries. Among the CEB, a high budget deficit poses a threat to the economies of not only Poland, a country with the largest economy, but also the economies of Czech Republic, Hungary, Croatia, and Slovak Republic and the situation is further complicated by the severe flooding of summer 2002. By contrast, for the countries of south-eastern Europe (SEE) continue to enjoy better cooperation to promote investment and trade, and thus, their budget indicators are still improving. Budget indicators of the countries of Commonwealth of Independent States (CIS) are varied, and among them, the Russian budget, which has been experiencing a budget surplus since 2000, is still ourperforming the others. The explanation for this would be directly related to the price increase of oil, one of the main export goods of Russia, and if the oil price starts to fall, keeping up will be obviously difficult. The ratio of the budget deficit to the GDP in Mongolia was 4.1 percent in 2001; however, it increased by 1.5 points, to 5.6 percent in 2002. This growth in the deficit can be explained by an increase in the budget expenditure, or specifically, by an increase of investment to promote economic development.

		1995	1996	1997	1998	1999	2000	2001*	2002**
Central eastern Europe and the Baltic states	Croatia	-1.4	-1	-1.9	-1	-6.5	-7.1	-5.8	-4.6
	Czech Republic	-1.6	-1.9	-2	-2.4	-2	-4.2	-5.2	-9.3
	Estonia	-1.3	-1.5	2.2	-0.3	-4.6	-0.7	0.4	-1
	Hungaria	-6.7	-5	-4.8	-4.8	-3.4	-3.3	-4.7	-6
	Latvia	-4	-1.8	0.3	-0.8	-3.9	-3.3	-1.9	-2.5
	Lithuania	-4.5	-4.5	-1.8	-5.9	-8.5	-2.8	-1.9	-1.4
	Poland	-3.1	-3.3	-3.1	-3.2	-3.7	-3.2	-6	-5
	Slovak Republic	0.4	-1.3	-5.2	-5	-3.6	-3.6	-3.9	-4.5
	Slovenia	-0.3	-0.2	-1.7	-1.4	-0.9	-1.3	-1.2	-2.9
	Average (CEB)	-2.5	-2.3	-2	-2.8	-4.1	-3.3	-3.4	-4.1
South-eastern Europe	Albania	-10.1	-12.1	-12.6	-10.4	-11.4	-9.1	-8.5	-8
	Bosnia and Herzegovina	-0.3	-4.4	-0.5	-8	-9.1	-10.1	-6.3	-5.5
	Bulgaria	-5.7	-10.3	-2	0.9	-0.9	-1	-0.9	-0.8
	FR Yugoslavia	-4.3	-3.8	-7.6	-5.4	0	-0.8	-1.9	-5.6
	FYR Macedonia	-1	-1.4	-0.4	-1.7	0	2.5	-6.3	-4.4
	Romania	-2.5	-3.9	-4.6	-5	-3.5	-3.7	-3.5	-3
	Average (SEE)	-4	-6	-4.6	-4.9	-5	-3.7	-4.6	-4.6
Commonwealth of Independent States	Armenia	-9	-8.5	-5.8	-4.9	-7.4	-6.3	-3.8	-3.2
	Azerbaijan	-4.9	-2.8	-1.6	-3.9	-4.7	-0.6	1.4	-0.1
	Belarus	-2.7	-1.8	-1.2	-0.5	-1.8	0.3	-0.4	-0.7
	Georgia	-5.3	-7.3	-6.7	-5.4	-6.7	-4.1	-2	-1.7
	Kazakhstan	-3.4	-5.3	-7	-8	-5.2	-1	-1.1	-2
	Kyrgyz Republic	-17.3	-9.5	-9.1	-9.4	-11.8	-9.6	-6	-4.9
	Moldova	-13.1	-15.2	-14.1	-5.7	-6.1	-2.6	-0.5	-2.7
	Russia	-6.1	-8.9	-8	-8	-3.3	3	2.9	1.5
	Tajikistan	-3.3	-5.8	-3.3	-3.8	-3.1	-0.6	-0.1	-1
	Turkmenistan	-2.6	0.3	0	-2.6	0	0.4	-0.8	-2
	Ukraine	-6.1	-3.2	-5.4	-2.8	-2.4	0.8	-1.6	-1.8
	Uzbekistan	-4.1	-7.3	-2.4	-3	-2.7	-1.2	-0.5	-2.5
	Average (CIS)	-6.5	-6.3	-5.4	-4.8	-4.6	-2	-0.9	-1.8
	General average	-4.6	-4.9	-4.1	-4.2	-4.3	-2.7	-2.6	-3.2
	Mongolia	-0.9	-7.5	-7.8	-12.5	-10.6	-7.5	-4.1	-5.7

*-Preliminary
**- Forecast

lower than 2000 and 1.7 percent higher than 2001. The ratio of the budget deficit to GDP fully satisfies the objective of decreasing the fiscal deficit to 7.1 percent of GDP, as stated in the "Main Guidelines of Economic and Social Development in Mongolia for 2002", approved by the Resolution 84 of the State Great Hural (SGH) in 2001.

Although the main budget indicators have been improving since 2001, the budget deficit remains high, and continues to be financed largely by foreign borrowing. Foreign borrowing to finance the budget deficit amounted to 92.1 billion togrog, of which foreign project loans accounted for 75.8 billion togrog, while foreign borrowing of 16.3 billion was used to finance non-project related budget expenditures. In 2002, amortization payments on foreign borrowing reached 16.7 billion togrog, such that net foreign financing totaled 75.4 billion togrogs, representing an increase of 20.6 percent (12.9 billion togrogs), compared with 2001.

The main indicator of the tax burden on the economy calculated by taking a ratio of total tax revenue to GDP rose to 28.6 percent for 2002. The increase of 0.4 percentage points compared with 2001 provides a measure of the increase in the tax burden for entrepreneurs in the reporting period.

The SGH approved the "State Budget Law" on November 20, 2002, replacing the "General State Budget Law", approved on December 21, 1992. In addition, on December 5, 2002, the SGH adopted amendments to the "Personal income tax law", "Corporate income tax law", and "Value added tax law" that took effect on January 1, 2003.

Budget revenue

According to the preliminary report on budget performance for 2002, current revenue accounted for 98.5 percent of the total budget revenue, grants accounted for 1.4 percent, while capital revenue accounted for 0.1 percent. Compared with the previous year, the contribution of current revenue to total revenue increased by 0.7 percent, grant revenue decreased by 0.7 percent, and the percentage contribution of capital revenue remained unchanged. .

An analysis of the composition of current revenue indicates that the contribution of tax revenues increase by 1.2 compared to the budget performance of 2001, reaching 76.4 percent of total revenue, while the contribution of non-tax revenue decreased by 0.4 points from the previous year to 22.1 percent of total revenue.

Budget revenues amounted to 104.5 percent of the budget plan, and the higher than expected outturn can be largely attributed to over performance in 18 main classifications other than revenue from value added tax, corporate income tax, tax on business activities, where precise income cannot be determined, and taxes on imported beer, cigarette, and

Table 3. General government budget

In billions of togrog

	2001 actual	2002 projection	2002 actual1	Changes of actual
Total revenue & Grants	424.5	447.7	466.5	42.0
Current revenue	415.1	439.5	459.4	44.3
Tax revenue	319.4	341.3	356.5	37.1
Income tax	65.0	68.9	70.9	5.9
Social security contribution	46.1	42.4	53.4	7.3
Tax on property	1.6	4.0	3.0	1.4
Domestic sales tax	164.7	176.8	178.5	13.8
Taxes on foreign trade	27.5	23.8	25.1	-2.4
Other tax	14.5	25.4	25.6	11.1
Nontax revenue	95.7	98.2	102.9	7.2
Capital revenue	0.3	0.2	0.5	0.2
Grants	9.1	8.0	6.6	-2.5
Total expenditure & Net lending	470.0	530.1	536.5	66.5
Current expenditure	359.0	402.9	407.8	48.8
Goods and service	247.6	272.8	280.4	32.8
Wages and salaries	91.6	104.4	105.3	13.7
Other goods and services	156.0	168.4	175.1	19.1
Interest payments	16.2	20.6	17.7	1.5
Subsidies and transfers	95.2	109.5	109.7	14.5
Subsidies	5.7	9.4	9.1	3.4
Transfers	89.5	100.1	100.6	11.1
Capital expenditure	50.3	56.0	63.7	13.4
Lending (net)	60.7	71.2	65.0	60.7
Current balance	56.1	36.6	51.6	-4.5
Overall balance	-45.5	-82.4	-70.0	-24.5
Financing	45.5	82.4	70.0	24.5
Foreign, net	62.5	91.8	75.4	12.9
Project loans	58.3	83.0	75.8	17.5
Financial loans	23.9	21.6	16.3	-7.6
Amortizations	-19.7	-12.8	-16.7	3.0
Domestic, net	-17.0	-9.4	-5.4	11.6

[1] Preliminary

vehicles.

The increase of personal income tax receipts by 26.6 percent or 5.5 billion togrogs from the previous year, as well as the 84.6 percent increase in tax revenue from private enterprises by 84.6 percent are directly related to an increase of employment and monetary income of households.

Non-tax income was 102.9 billion togrogs or 4.7 billion togrog (4.8 percent) higher than anticipated in the budget. The major sources of nontax income are dividends, navigation fees, and private income of public institutions.

Property tax revenue of 2.9 billion togrogs was 1.0 billion or 25.3 percent lower than the plan. The main reason is the lack of organized collection of real estate taxes, which were added to the municipal budget revenue.

Privatization projects were aimed at fulfilling the objectives stated in the “Main Guidelines of Economic and Social Development in Mongolia for 2002” and at the implementing the “Public Property Privatization Programme in 2002”, approved by the Government resolution 9 of the year 2002. During the reporting year, total of 14 enterprises were privatized, 11 pieces of real estate were sold in accordance with programme guidelines, and revenues of 15.9 billion togrogs were added to the state budget, considerably higher than the 10.7 billion togrog contribution from the previous year.

Budget expenditure

State budget expenditure reached to 536.5 billion togrogs, and total financing has exceeded what was planned by 6.4 billion or 1.2 percent. State budget financing goals for social security, purchases of goods and services, salaries, pensions, transfers, subsidies, compensation, municipal transfers, domestic investments were met. .

A breakdown of state budget expenditures shows that expenditure on goods and services accounted for 52.3 percent of total spending, debt service amounted to 3.3 percent, transfer and subsidy payments accounted for 20.4 percent, and capital expenditures and net lending reached 23.6 percent. Compared to the year 2001, percentage of goods and services expenditure has decreased by 0.4 percentage points, loan service by 0.1 percentage points, capital expenditure and net lending by 0.4 percentage points, and transfers and subsidies has increased by 0.1 percentage points.

Although expenditure on goods and services exceeded the planned amount by 6.7 billion, fuel and heat expenditure was reduced by 1.5 billion, electricity costs by 758.8 million, clean and waste water costs 196.1 million, transportation costs by 106.2 million togrogs.

Figure 16. Budget deficit (percentage of GDP)

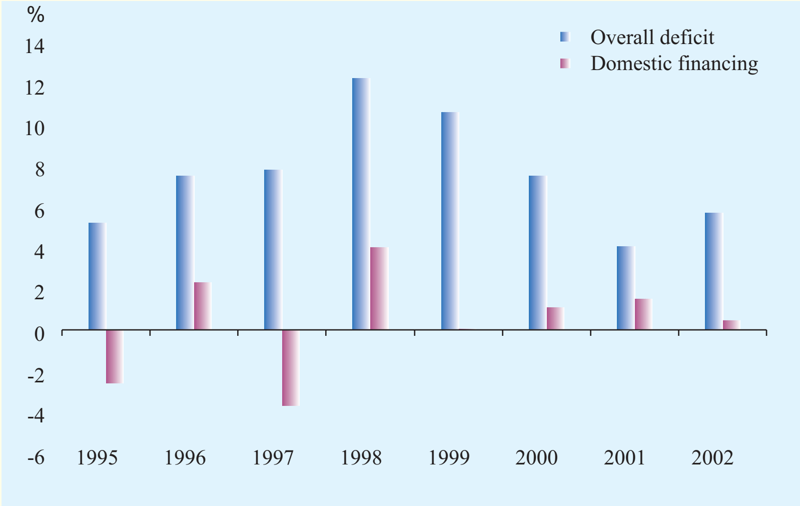


Figure 17. Budget revenue and grants

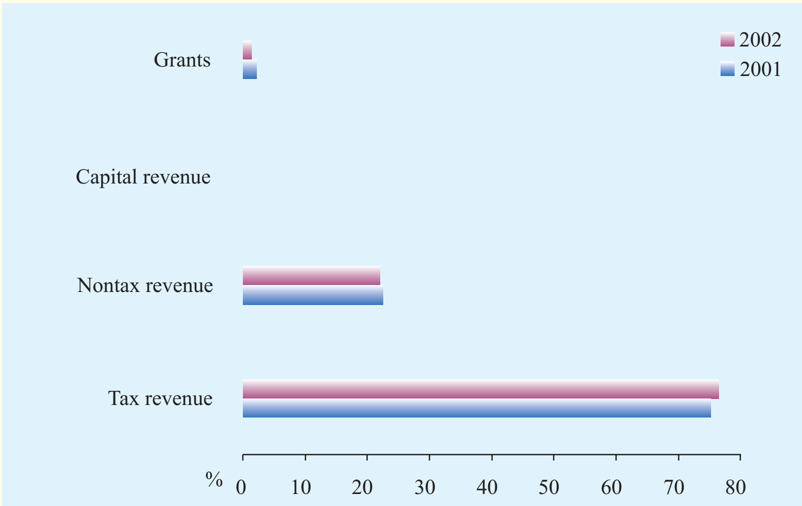
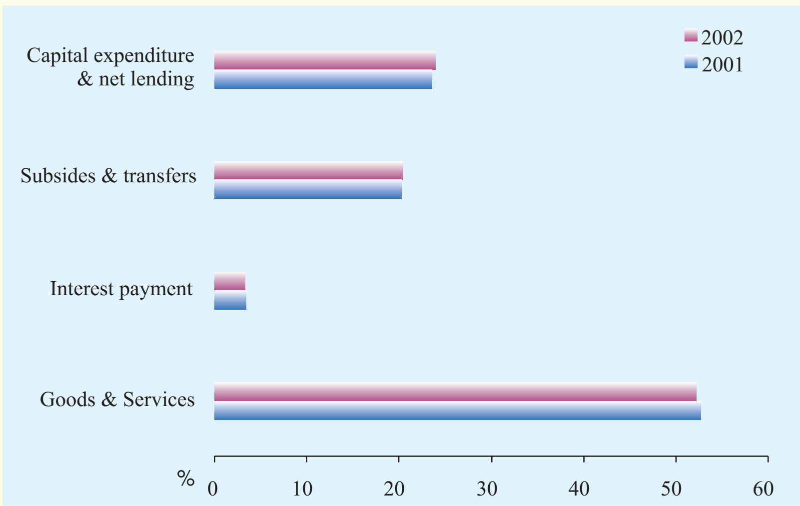


Figure 18. Budget expenditure and net lending



State budget financed debt service payments were 2.9 billion less than the amount stated in the budget plan. This is related to the improvement of cash management.

In 2002, state and municipal budgeted institutions paid special attention to repaying the debts transferred from the previous years, and are now able to move on to the next year without prior year budget debts.

Capital expenditures exceeded the plan by 7.7 billion, reaching 63.7 billion togrog, which is 13.4 billion higher than the previous year. The majority of this capital financing growth was created by an increase in domestic investments.

The amount of domestic investment has reached 50.2 billion with an increase of 16.2 percent from the previous year. Specifically, financing of expenditures in most of the main classifications such as budget investment, overhaul, usage of auto road fund, geological expedition financing, forestation, other environmental measures, and financing of state reserve formation exceeded the amount in the budget plan.

One of the main structural reforms in 2002 was the implementation of the civil service reform strategy aimed at changing the structures of budget expenditure, where have been no significant changes since 1991. In addition, the SGH has approved "Main Guideline of Changes, Reforms, and Privatization in the Social Sector" on July 10, 2002 by Resolution 56. The main purposes of this guideline are to increase private sector participation in the social sector, support competition, and to improve effectiveness and accessibility of social services in response to public demand.

2.3. Balance of payments

In the reporting period, recovery signs in the world economy, the steady price growth of gold, the stability of the copper price, fluctuations in the nominal exchange rate of togrog against US Dollar since mid-2002, and an increase in the forex reserves were the main events and developments that influenced the balance of payments outcome.

In addition, the government of Mongolia announced the year 2002 to be the "Investment Support Year" and it placed emphasis on sectors with the most investment potential such as mining, agriculture, infrastructure, tourism, banking and finance, IT and construction.

However, there have been several negative effects on the balance of payments such as a drop in the production of certain agricultural goods as a result of the adverse natural conditions of the past 2-3 years, and a decrease in the world market price of cashmere, one of the principal export commodities.

Current account

According to the preliminary estimates, the current account deficit has been running at 12.1 percent of GDP. The twofold increase in this parameter compared to the previous year can mostly be explained by the worsened trade balance deficit. Adverse natural conditions have resulted in the decline of production of domestic goods, especially, agricultural products and crops; and therefore, resulted in a shortage that had to be filled by imported goods. The investments into the manufacturing, construction, communication, and transportation sectors have mostly been financed by foreign resources, and demand for the required equipments and technologies of those sectors were satisfied by imported products due to lack of domestic availability of finished and tech products. That has had an impact on the trade deficit. In addition, the stability of the nominal exchange rate of Togrog against US Dollar since 2000 might have played certain role in worsening of the current account. In reporting year, an increase of the overall fiscal deficit by 53.8 percent and foreign source financing by 20.6 percent compared to the last year have had negative affects as well.

At the end of reporting period, the real exchange rate of Togrog, calculated by the consumer price index, had depreciated by 3 points. This decline can be explained by the depreciation of exchange rate of the togrog against currencies of the countries, which make up about 70 percent of the foreign trade such as the US Dollar, Russian Ruble and Chinese Yuan, and by the fact that the domestic CPI has been roughly at par with CPI of those economies.

A share of the export of goods in current accounts revenue has gone down by 6 points compared to previous year and share of export of services has grown by the same amount. For current account expenditures, the share of imports of goods has increased by 2 points while share of imports of services has declined by the same amount.

Preliminary data indicates that the total foreign trade turnover has been at the level of the previous year, which was 1160 million US Dollars. Total amount of exports and imports were 500.9 million and 752.4 million US Dollars respectively, and the trade deficit equaled 23.0 percent of the GDP.

World economic stagnation still influences Mongolia's export performance. The percentage share of copper, the main export product, in total exports has declined to 27.6 percent. The physical amount of copper exports has decreased by 0.4 percent, and the proceeds by 6.6 percent compared to previous year. Exports of de-haired cashmere declined by 45.3 percent, falling to 30.1 million US Dollars. On the other hand, during the time of favorable world gold price fluctuations, the Bank of Mongolia sold 12.4 tonnes of gold valued at 117.4 million US Dollars to international financial institutions, and that had a positive impact on the balance of payments. Gold exports has grown by 57.4 percent in price terms (in physical term by 46.0 percent) and now make up 23.5 percent of total exports.

The 3.3 percent growth in import of goods is mainly due to increases of imports with cash forex payment, imports financed by the foreign ODA, and imports of goods and materials ordered by foreigners. The imports of foodstuffs have increased by 10.6 percent, the imports of machinery and vehicles by 10 percent, the imports of consumer goods by 16.4 percent. On the other hand, the imports of oil products decreased to 110 million USD, which is 16.7 percent of the total imports.

The compositional breakdown of the foreign trade shows that 52.5 percent of the total trade is with the two neighboring nations, 43.4 percent is with developed and industrialized countries, and 4.1 percent is with developing nations and transition economies. 92 percent of total copper exports went to the People's Republic of China, 61.0 percent of total non-monetary gold exports were to the USA, and 89.3 percent of oil imports were from Russia. The foreign trade with industrialized countries increased by 32.9 million USD, and its share in the total foreign trade has gone up by 2.9 percent.

In the reporting year, world prices of Mongolia's major export goods such as metals or timber have fallen whereas prices of agricultural goods and fooddstuff have increased. Although the volume of exports in both physical and price terms has increased, it fell behind the growth of imports. Furthermore, compared to the previous year, prices of import goods have increased faster than the prices of export goods, which has deteriorated our trade conditions and resulted the trade deficit increase.

The export structure of our country is still being very much dependent on the production of a few raw materials and their market prices. In 2002, copper concentrates, gold, dehaired cashmere together made up 57 percent of Mongolia's total exports. In addition, the export of manufactured goods, namely, that of garments has steadily increased and constituted 19 percent of this year's exports.

In 2002, Mongolia traded with 75 foreign countries. The composition of trading partners stayed almost the same and 80 percent of trade turnover is covered by PRC, Russia, USA, South Korea and Japan.

The government of Mongolia has emphasized the service sectors such as tourism, IT, telecommunication, banking and finance, and transportation as sectors with the most potentials to attract investments and has been giving opportunities to expand their scope by its policy of promoting those sectors. 22 percent of current account revenues have been generated by service revenues which is 6 percent higher compared to the previous year. A steady increase in the number of tourists visiting Mongolia not only makes tourism one of main export earners, but also positively affects the earnings of the related service sectors

Figure 19. Trade balance

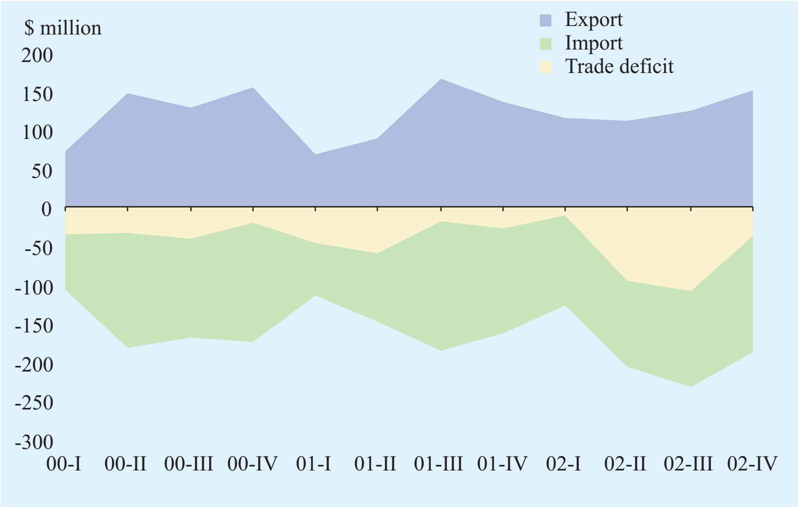


Figure 20. Balance of payments (net amount)

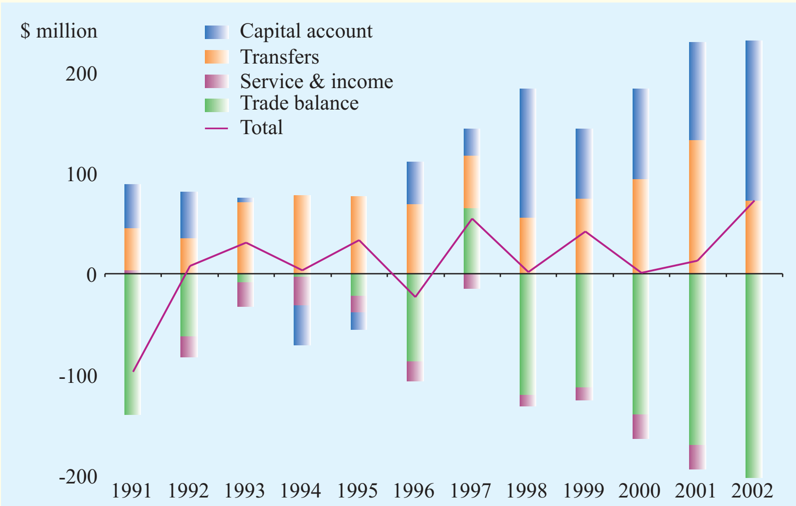
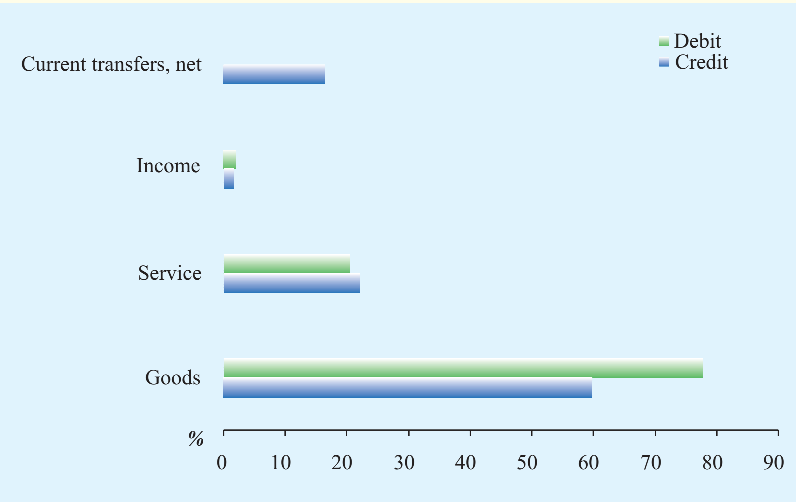


Figure 21. Current account structure



such as ground and air transportation, telecommunication, and banking and finance. 70.5 percent of total service revenues was generated by the tourism sector.

Although foreign assets of the commercial banks have risen by 35.1 percent compared to the previous year, due to low level of interest rates of the world financial market, interest income has fallen. Dividends paid by foreign invested companies stayed at the level of the last year, and foreign debt service by the government and economic entities has gone up.

Outflow of labor to industrialized countries such as South Korea, Germany, USA, UK and Japan has been steadily growing over the past few years. This migration of labor force can be defined as somewhat endemic feature of the developing or transition economies. As the number of residents working abroad increases, the percentage of their remittances in the current account increases as well. Furthermore, some research studies indicate that the remittances have reached over 10 percent of the GDP and the amount is high enough to affect the demand and supply in the real estate and foreign exchange markets.

Since this inflow of funds affects not only deposits of the banks, but also has an influence on stabilization of the exchange rate of Togrog and on price increases of housing, it is necessary to conduct researches on the amount and scope of the private remittances.

Capital account

Financing the deficit of the current account by inflows of FDI or overseas borrowing is contituing. The amount of FDI doubled compared to 2001 and it has reached 7 percent of the GDP. Government approval and implementation of the Privatization Program proved to be crucial factor for the increase in the FDI. "Investors forum" with the purpose of promoting the private sector development in the long run has been jointly organized by the Government of Mongolia and the World Bank during past few years in Ulaanbaatar, and has positively influenced the cooperation with foreign investors and enriched their

Table 4. Terms of trade

annual percent change

	2001	2002 [1]
Export value index	(2.4)	12.0
Export volume index	10.8	8.9
Export price index	(11.9)	2.8
Import value index	2.5	16.1
Import volume index	4.3	13.2
Import price index	(1.6)	4.8
Terms of trade	10.3	(2.0)

[1] Preliminary estimation of IMF

Table 5. Balance of payments

in millions of US dollars

	2001	2002 [1]				
		I	II	III	IV	
Trade balance	-169.9	-11.4	-94.9	-108.0	-37.2	-251.5
Exports F.O.B	523.2	115.0	111.1	124.1	150.8	500.9
Of which: Copper concentrate	147.9	27.1	37.4	38.2	35.4	138.1
Nonmonetary gold	74.7	44.4	20.5	14.6	38.1	117.6
Other	300.6	43.5	53.2	71.2	77.3	245.2
Imports C.I.F	-693.1	-126.4	-206.0	-232.1	-188.0	-752.4
Of which: registered by customs	-630.1	-114.9	-187.3	-213.5	-170.9	-686.5
Service balance	-22.2	-13.9	-6.1	25.6	-19.3	-13.8
Receipts	113.5	27.4	41.9	80.5	34.8	184.5
Payments	-135.7	-41.3	-48.0	-54.9	-54.1	-198.3
Income /net/	-2.0	1.0	-4.3	-1.1	-0.1	-4.5
Interest payments	-8.8	-1.1	-4.1	-2.4	-3.1	-10.8
Private transfers	25.0	2.7	9.8	15.3	36.5	64.4
Current account deficit						
/excluding public unrequited transfers/	-169.1	-21.5	-95.5	-68.3	-20.1	-205.4
Public unrequited transfers	107.4	22.4	20.8	16.0	14.0	73.2
Official grants	92.1	16.8	15.3	10.6	10.3	53.0
Others	15.3	5.6	5.5	5.4	3.7	20.2
Current account deficit	-61.6	0.9	-74.7	-52.3	-6.1	-132.2
Capital account	97.7	24.9	23.0	74.4	36.4	158.6
Direct investment	43.0	7.0	20.0	22.8	28.0	77.8
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0
Medium and long-term loan	68.6	7.9	4.3	76.4	13.0	101.6
Of which: Disbursements	167.1	31.9	20.9	101.5	32.7	187.0
Amortizations	-98.5	-23.9	-16.7	-25.1	-19.7	-85.4
Government	66.2	11.9	8.4	29.9	22.7	72.9
Of which: Disbursements	84.2	13.7	10.3	33.0	30.0	86.9
Amortizations	-18.0	-1.8	-1.9	-3.1	-7.2	-14.0
Business entities	2.4	-4.0	-4.1	46.6	-9.8	28.7
Of which: Disbursements	82.9	16.2	10.7	68.5	2.7	98.2
Amortizations	-80.5	-20.3	-14.8	-22.0	-12.5	-69.5
Commercial bank, net	1.4	0.9	5.8	-15.3	-0.8	-9.5
Short term capital	-15.3	9.0	-7.0	-9.5	-3.7	-11.2
Errors and omissions	-52.0	10.0	66.3	-29.6	-0.7	46.0
Overall balance	-15.9	35.7	14.7	-7.5	29.6	72.4
Financing	15.9	-35.7	-14.7	7.5	-29.6	-72.4
Increase in net official reserves (-)	11.1	-35.7	-13.5	8.2	-29.6	-70.6
Use of IMF credit	-1.7	-1.9	-2.0	-2.0	-2.0	-7.8
Changes of offical reserves	12.8	-41.4	-8.8	15.0	-27.6	-62.8
Arrears accumulations (+)/payments (-)	4.8	0.0	-1.2	-0.7	0.0	-1.8
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0

[1] Preliminary

knowledge about Mongolia.

In 2002, the number of foreign companies, who expressed an interest in investing in Mongolia, increased by 387 and the amount of their registered capital by 51 million USD. About 80 percent of total FDI has been invested the mining, trade, banking and finance, and manufacturing sectors. The registered investment to trade and restaurant sector has amounted the largest, which is about 50 percent of total investment. The first substantial foreign direct investment has been made into the banking and finance sector; or specifically, in accordance to the Privatization Program, the state owned shares of the Trade and Development Bank, the biggest bank operating in Mongolia in terms of asset and profit, were sold to the foreign investors.

By the amount of investment, investors of PRC, South Korea, Canada and USA have dominating roles and their investment make up 85 percent of the total investments.

Total amount of outstanding loans provided by the international financial institutions, and bilateral donors has reached 82 percent of the GDP. Due to the shortage of domestic funding, the amount of foreign debt has a tendency to increase; therefore, the above ratio increases as well.

In 2002, medium and long term loans of 86.9 million USD were made to the government of Mongolia by the international and bilateral donors, and 82 percent of which had been by the ADB, the World Bank and the governments of Japan, and South Korea. 68.9 percent of the loans have been utilized towards projects on the improvement of infrastructure, support of the private sector, governance and legal system reforms, and the remaining 31.1 percent was disbursed for budget deficit financing.

In the reporting year, debt service amounted to 7 percent of the export revenue and 8 percent of the budget revenues.

The majority of the foreign loan issued since 1991 have been inter-government loans and government guarenteed loans; however, during recent years, the amount of the foreign debts contracted by the private sector has been on a rise.

Table 6. World nonfuel commodity price index (1990=100)

Commodity items	2001	2002 [1]
Foodstuffs	86.3	94.6
Commodity originated from agriculture	97.0	97.3
Metal	75.9	72.7
Fertilizer	100.3	101.7
Wood	121.8	115.5

[1] Preliminary

Table 7. Trade breakdown (by countries)

as share of total

Countries	Export		Import		Trade turnover	
	2001	2002	2001	2002	2001	2002
Neighboring countries	53.0	50.3	54.3	54.2	53.7	52.5
Russia	8.6	8.6	35.4	34.1	23.4	23.1
China	44.4	41.7	18.8	20.2	30.3	29.5
Industrialized countries	45.8	48.5	36.2	39.4	40.5	43.4
Great seven countries	37.1	38.7	18.0	15.9	26.6	25.9
USA	27.8	31.6	2.2	3.5	13.7	15.7
Japan	3.0	1.3	8.8	6.0	6.2	4.0
Germany	0.4	0.5	4.8	4.5	2.8	2.8
France	0.1	0.0	1.0	0.7	0.6	0.4
Italy	3.2	1.7	0.5	0.4	1.8	1.0
United Kingdom	2.4	3.5	0.6	0.4	1.4	1.7
Canada	0.2	0.1	0.2	0.4	0.2	0.3
European union	7.0	6.5	10.3	8.3	8.9	7.5
Euro area	4.7	3.0	8.5	7.3	6.8	5.4
Newly industrialized Asian countries	5.2	5.1	13.6	18.8	9.8	12.9
Hong-Kong	1.3	0.6	2.5	4.3	2.0	2.7
Korea	3.9	4.4	9.1	12.2	6.8	8.8
Singapore	0.0	0.0	1.6	1.7	0.9	0.9
Other	2.6	4.0	1.1	2.5	1.8	3.1
Australia	1.9	3.5	0.2	1.7	1.0	2.5
Developing countries	0.4	0.6	1.8	1.8	1.2	1.3
Asia	0.0	0.0	1.5	1.5	0.9	0.8
Middle east and Turkey	0.2	0.3	0.2	0.2	0.2	0.2
South and North America	0.2	0.3	0.0	0.1	0.1	0.2
Countries in transition	0.8	0.6	7.7	4.6	4.6	2.8
Central and east Europe	0.6	0.0	3.8	2.8	2.3	1.6
Former socialist countries	0.2	0.5	5.2	2.7	2.9	1.7

As of the end of 2002, net forex reserve rose by 41.2 percent from the previous year, reaching 225.9 million US, which is equal to 15.6 weeks of import coverage.

2.4. Prices and wages

As a result of policies to strengthen macroeconomic and price stability, to promote sustained economic growth, and to deepen financial intermediation as stated in the Main Guideline for the State Monetary Policy, the annual inflation rate, represented by the consumer price index, fell to 1.6 percent in 2002 with a decrease of 6.4 points from the previous year. This is the lowest ever level in the last 12 years. During 2002, inflation fluctuation of each month has decreased 4.5 times compared to the last year.

Low and relatively stable inflation indicates the diminishing effect of economic structural reforms on the price level and stabilization of the real economy. The inflation rate of the reporting period is 5.5 percent lower than core inflation or inflation, which has been adjusted for the seasonality of meat, milk, vegetables and other dairy product prices. High core inflation is caused by price fluctuations of meat and meat products.

During the reporting period, out of 239 items in the consumer basket, prices of 27 items have increased, prices of 3 products have decreased, and the prices of remaining 209 products have been stable. The 1.2 percent decrease in the foodstuff sub-group, which takes up the highest weight in the consumer basket, from the beginning of the year can be explained by the price decline of flour and flour products by 8.2 percent, alcohol and tobacco by 6.7 percent, sugar, candy, tea, fruits by 4.4 percent, meat and meat products by 0.3 percent. On the other hand, the price of subgroups such as medical care and services, cultural goods and others has increased by 2.4-9.2 percent.

Starting from October 1, 2002, wages of 125.8 thousand civil servants have increased in accordance to the Government Resolution 195 of September 18, 2002.

The current measure to increase the wage has been signicant by its step to equate the wage of the civil servants to their productivity in order to attract highly qualified, young staff and to employ them permanently. The wages of employees of state support service, special service and authority bodies have been raised on average by 20 percent, and the wages of administrative employers, and attorneys and prosecutors have been raised on average by 22 percent. A total of 4.3 billion togrogs of additional financing has been withdrawn from the state budget for the above-mentioned purpose. Since April 2001 wages have been increased three times and compared with the level of 2000, are 31 percent higher.

By Government Resolution 263, the minimum wage rate has been increased to 30,000 togrogs from 24,750 togrogs, which was set in 2001, and the current rate is 2.5 times higher from the year 2000.

Furthermore, the pensions provided by the Social Security Fund were increased by 20 percent, the pensions provided by the Social Insurance Fund by 20 percent, and the allowances for childcare by 5 percent. A total of 263.8 thousand persons were covered by the measures of 2002 to increase the pension.

2.5. Labor market

At the end of the year 2002, the population of Mongolia was 2475.4 thousand, 1439.2 thousand of which was a population of working age, 901.7 thousand persons were in the labor force, and 870.8 thousand persons were employed.

Box 5. Comparison of transition economies' ratio of balance of payment (BOP) to GDP

In 2002, the BOP current account deficit of Mongolia was 11.9 percent of GDP having doubled from that of the previous year, mostly due to the trade deficit. In addition, an increase of the fiscal deficit of 54 percent from the previous year has negatively affected the current account. Compared to the other transition economies, Mongolia has a higher current account deficit; and considering the averages, it is relatively similar to average of South-Eastern European (SEE) countries and higher than the averages of central Europe and Baltic (CEB) state countries and Commonwealth of Independent States (CIS). Those countries have a higher possibility of covering the current account deficit by foreign investment and loans compared to Mongolia. Although the policy to promote economic growth differs from one country to another, stabilizing the BOP has become important for transition economies because of the current situation. Changing the expenditure structure, which had been spendthrift during socialist regime, decreasing the tax burden, and privatizing parts of the social sector have been exercised extensively. For some transition economies, their high amount of foreign debt is interrupting fiscal and trade activities; therefore causing high trade deficit.

		1995	1996	1997	1998	1999	2000	2001	2002
Central eastern Europe and the Baltic states	Croatia	-7.7	-5.5	-11.6	-7.1	-7	-2.3	-3.3	-3.5
	Czech Republic	-2.6	-7.1	-6.7	-2.2	-2.7	-5.3	-4.6	-3.6
	Estonia	-4.4	-9.2	-12.1	-9.2	-4.7	-5.7	-6.2	-6.7
	Hungaria	-5.6	-3.7	-2.1	-4.9	-4.3	-2.8	-2.1	-2.4
	Latvia	-0.4	-5.5	-6.1	-10.7	-9.8	-6.9	-9.7	-8.5
	Lithuania	-10.2	-9.2	-10.2	-12.1	-11.2	-6	-4.8	-5.8
	Poland	4.5	-1	-3.2	-4.4	-7.5	-6.3	-3.9	-3.8
	Slovak Republic	2.1	-10.6	-9.6	-9.7	-5.5	-3.7	-8.8	-9.1
	Slovenia	-0.5	0.2	0.1	-0.8	-3.9	-3.4	-0.4	1.2
	Average (CEB)	-2.8	-5.7	-6.8	-6.8	-6.3	-4.7	-4.9	-4.7
South-eastern Europe	Albania	-7.2	-9.1	-12.1	-6.1	-7.2	-6.9	-6.3	-6
	Bosnia and Herzegovina	-10.3	-27.3	-31	-17.1	-20.7	-21.4	-23.1	-20.3
	Bulgaria	-0.2	0.2	4.1	-0.5	-5.3	-5.6	-6.5	-5.9
	FR Yugoslavia	-	-11.6	-7.7	-4.8	-7.5	-7.4	-10.7	-12.9
	FYR Macedonia	-5	-6.5	-7.7	-10.1	-3.4	-3.1	-9.8	-10.2
	Romania	-5	-7.3	-6.1	-7	-3.7	-3.7	-6.1	-5
	Average (SEE)	-5.5	-10.3	-10.1	-7.6	-8	-8	-10.4	-10
Commonwealth of Independent States	Armenia	-17	-18.2	-18	-21.3	-16.6	-14.6	-9.5	-8.9
	Azerbaijan	-13.2	-25.8	-23.1	-30.7	-13.1	-3.2	-0.9	-22.4
	Belarus	-4.4	-3.6	-6.1	-6.7	-1.6	-2.1	0.8	-0.4
	Georgia	-7.5	-9.1	-10.6	-9.4	-8.2	-5.5	-6.8	-6.2
	Kazakhstan	-1.3	-3.6	-3.6	-5.6	-1	2.2	-7.8	-5.5
	Kyrgyz Republic	-13.9	-21.4	-7.8	-25	-19.5	-11.6	-3.4	-2.9
	Moldova	-6.8	-9.8	-12.6	-16.7	-2.9	-8.4	-9.1	-9.2
	Russia	2.2	2.8	0.5	0.3	12.7	17.9	11.3	8
	Tajikistan	-16	-7.1	-5.4	-9.1	-3.4	-6.4	-6.9	-4.1
	Turkmenistan	0.9	0.1	-25.3	-37.4	-24.8	15.2	-2.5	0.8
	Ukraine	-3.1	-2.7	-2.7	-3.1	2.6	4.7	3.7	4
	Uzbekistan	-0.2	-7.8	-5.4	-0.4	-2	2.8	-0.5	0.6
	Average (CIS)	-6.7	-8.8	-10	-13.7	-6.5	-0.8	-2.6	-3.9
	Mongolia	5.2	-4	9.9	-7	-5.2	-5.8	-6.1	-12.1

The labor force participation rate, the main indicator of labor market development, reached 61.5 percent by the end of 2002 with an increase of 0.5 points from the previous year.

Within the framework of implementation of objectives stated in the Government Action Program and the Main Guidelines of Economic and Social Development in Mongolia for 2002, the "National program of supporting employment" has been drawn up in accordance to the principles of the "Potential Labor" of the International Labor Organization and has been approved. The Program will be accomplished in two successive stages between 2002-2010 and the real unemployment rate is planned to be reduced in half in the year 2010 from the level of 2002.

As the end of the reporting year, the number of registered unemployed people was 30.9 thousand, which is lower by 23.5 percent or 9.5 thousand people from the previous year. 54.4 percent of the total registered unemployed people were women. Compositional breakdown of the unempleyment by age structure shows that 25.1 percent or 7.7 thousand people are between the ages of 16-24, 34.4 percent or 10.6 thousand people are between the ages of 25-34, 30 percent or 9.3 thousand people are between the ages of 34-44, and remaining 10.5 percent or 3.2 thousand people are between the ages of 45-59. Furthermore, the educational structure of unemployment reveals that 8.8 percent have higher education, 10.9 percent have specialized secondary education, 12.2 percent have technical and vocational training, 62.4 percent have upper and compulsary secondary education, 5.0 percent have primary education, and 0.7 percent have no formal education.

In 2002, 45.3 thousand people were newly registered at the city and municipal labor bureaus and out of 35.5 thousand newly employed people, 4.6 percent were hired by state-owned enterprises, 9.5 percent by government institutions and the remaining 85.9 percent by corporations, cooperatives and by others. Moreover, 15.4 thousand unemployed persons were included in professional training.

The Employment Support Foundation has allocated total of 613.0 million togrog at the Golomt, XAC, Inter banks, Mon-Arvis, and Munkh-Ariljaa NBFIs, and 2200 jobs were created through issuance of loans to 400 individuals and 20 economic entities.

In addition, within the agenda of the ADB founded “Employment generation project”, loans of 2.4 billion togrogs were issued to 144 economic entities and 159 individuals and 4200 jobs were created.

In order to implement the “Law on exporting and importing labor force” and to create favorable condition for the business entities and individuals to work and participate in training courses abroad, the Ministry of Social Welfare and Labor has granted special permissions to “Tului” and “Bumtod” companies to mediate in exporting labor to Czech Republic, “Budin” company to Hungary, “Zag”, “Bridge”, “TCI”, “Muhut” companies and “Ikh Khiimori Tuv” non-government organization to Japan, and Zag company to Korea. During the reporting year, total of 300 people have gone abroad to work with the mediation of the above-mentioned companies.

Moreover, the permissions to work in Mongolia was granted to 6118 foreigners from 56 countries and permission to invite total of 4617 foreigners to work was granted economic entities and organizations, and 1975 permissions were extended.

3. FINANCIAL SECTOR DEVELOPMENT

3. FINANCIAL SECTOR DEVELOPMENT

With regard of monetary and financial sector in 2002, the public confidence in the banking system has increased, financial intermediation of the banking system has deepened, and it has significantly contributed to the growth of the real economy. Inflation, represented by the consumer price index, has been stable during the reporting year and was 1.6 percent, which is the lowest ever level in the last 12 years. Although the Bank of Mongolia attempted to adjust the money supply through tight monetary policy during the year, growth of broad money has reached to the high level of 42 percent owing to the considerable domestic demand for money. The stable level of inflation has occurred because nominal exchange rate of the togrog against USD was stable throughout the year, and there has been no growth in the meat price due to an increase in the meat supply, which was related to herders' expectation of unfavorable weather conditions.

3.1. Money supply

In the reporting period, the money supply (M2) has increased by 42.0 percent or by 139.0 billion togrogs from the beginning of year, reaching 470.1 billion togrogs. The compositional breakdown of the money supply growth reveals that the currency outside banks increased by 8.3 percent, togrog demand deposit by 14.3 percent, togrog time deposits by 42.9 percent, and foreign currency deposits by 34.5 percent.

Structure of the money supply growth has significantly changed from the last year. In the previous year, 35.1 percent of the growth of M2 was explained by the growth of the currency outside banks and the demand deposit (M1) whereas in the reporting period, only 22.7 percent of the growth was generated by the increase in the M1. The fact that majority of the M2 growth is caused by the growth of the togrog and foreign currency deposit shows the increased public confidence in the banking system and the deepening of the financial intermediation.

If we consider the annual growth of the money supply growth by changes in the net foreign assets (NFA) and net domestic assets (NDA), majority of the growth or 64 percent is in the NFA and 36.0 percent is in the NDA. The growth trend of the NFA and NDA has been relatively unstable and the growth in NFA was higher than the one in NDA during the last 2 months of the reporting period. Therefore, if we look at the 12 month average of the above mentioned indicator, then 36.0 percent of the money supply growth is in the NFA and the remaining 64.0 percent is in the NDA, which is the exact opposite of the former percentages. As a conclusion, major growth in the money supply has increased domestic loans.

Table 8. Main indicators of financial sector

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
M2/GDP	52.4	27.6	21.9	23.7	18.5	19.9	20.4	20.5	23.8	24.8	29.7	38.2
Loan/GDP	68.0	40.4	16.2	16.3	11.4	10.0	6.1	10.5	8.4	6.4	12.1	18.8
Deposit/GDP	13.8	11.4	12.4	13.5	10.8	9.9	11.3	10.4	11.4	12.3	15.7	22.9
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
Loans outstanding (billion of togrog)	12.9	19.1	31.6	52.8	62.7	64.8	50.4	85.6	77.5	66.8	135.1	231.4

Similar to the other countries doing liberalization in the financial sector, growth of net domestic loans exceeded the growth of the money supply, reaching 54.7 percent, and that has influenced the DNA to increase by 46.0 percent or 50.7 billion togrogs from the pervious year. Net claims on the government decreased by 25.6 billion togrogs or 4.8 times while the net loans to public and private sectors increased by 72.4 percent or 90.7 billion togrogs.

As a result of an increase in the net foreign official reserves by 38.4 percent or 77.6 billion togrogs, the NFA rose by 40.1 percent or 88.3 billion togrogs in the reporting period. The changes in the net foreign official reserves were influenced by an increase in the foreign government securities held by the Bank of Mongolia by 2.1 times or 23.8 billion togrogs, and time deposits at foreign banks by 27.0 percent or 41.1 billion togrogs.

Money M1

As of the end of 2002, M1 increased by 31.6 billion togrogs and reached 187.7 billion togrogs, which constitutes 39.9 percent of the total money supply. The currency outside banks, the main determinant of the M1, has seasonal fluctuations.

In 2002, the currency outside banks increased by 11.6 billion togrogs or 10.6 percent and demand deposit by 19.9 billion togrogs or 42.3 percent. The increase of the public confidence in the banking system and the introduction of advanced payment forms resulted in 5.6 point decrease in the ratio of the currency outside banks to the M1.

A new positive tendency in the money market is a start of money flows into the banking sector as a result of a decrease in the demand for cash money, which was caused by the development of the financial market and the introduction of non-cash payment instruments. In 2002, non-cash payment cards were introduced to the local customers, and the total number of cardholders of the VISA card, issued by the Trade and Development bank, VISA and Master card, both issued by the Golomt bank, and the Tsahim Togrog card, issued by the Anod bank has reached to 23.5 thousand at the end of the reporting year.

Table 9. Reserve money, M2, CPI and exchange rate changes (%)

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

Quasi- money

In the reporting period, quasi-money (sum of the time deposit and the foreign currency deposits of the banking system) increased by 61.5 percent, reaching to 282.4 billion togrogs, which makes up 60.1 percent of the total money supply. If the growth of the foreign currency deposit accounted for the majority of the growth of the quasi-money during the previous years, in the reporting period, 55.4 percent or the majority of the growth was provided by the increase in the togrog time deposit. The time deposit has increased by 68.0 percent from the beginning of year and reached to 147.2 billion togrogs. Stability of the exchange rate of togrog and inflation level and the public expectation for continuing stability have acted as incentives to the public to place their deposit in the domestic currency.

Reserve money

Reserve money has increased by 21.9 percent, reaching 175.3 billion togrogs at the end of the year 2002. If we consider the change in the reserve money by composition, currency outside banks has risen by 10.6 percent and banks' reserves by 57.8 percent from the beginning of the year. As observed during the last two years, reserve money tends to increase in the first half of the year, to be relatively stable in the third quarter, and to decrease in the fourth quarter. This is determined by the seasonal economic activity, and especially by the quantity of the domestic gold mining. The reserve money growth is created directly through total price of gold purchased by the Bank of Mongolia from domestic gold mining enterprises.

In the beginning of the reporting year, reserve money was relatively stable, but from the end of March to the end of September it regularly increased, and at the end of year it started to decrease and showed a tendency toward stabilization. The peak season of gold mining is between the secondand third quarter and the reserve money reached its highest level or 189.8 billion togrogs in September 2002. As for the previous years, growth of the reserve money used to be created through issuance of loan to the government by the Bank of Mongolia for the purpose of a temporary financing of budget deficit, pension and allowance payments; however, no loan for this purpose has been made in 2002.

During the reporting period, the Bank of Mongolia aimed at restricting the sharp growth

Figure 22. Composition of money supply growth

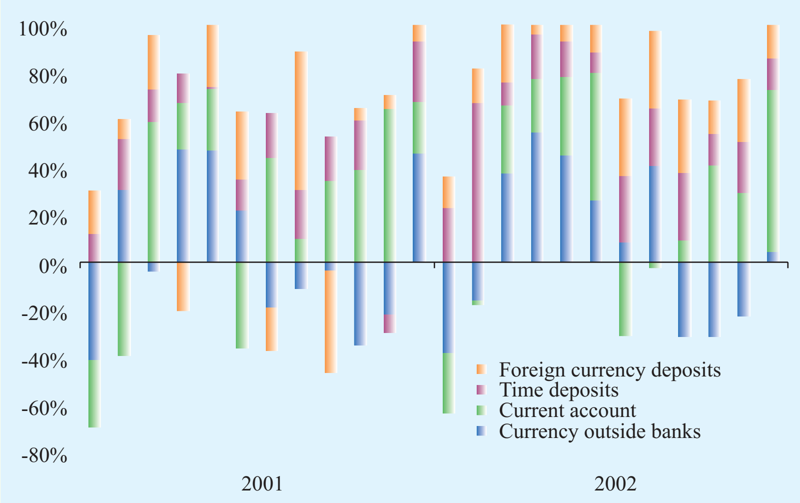


Figure 23. Annual changes of money supply, net domestic and foreign assets

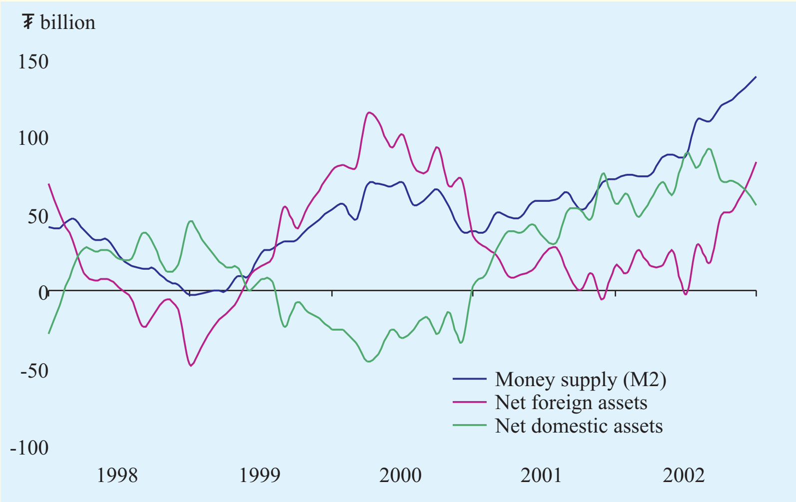
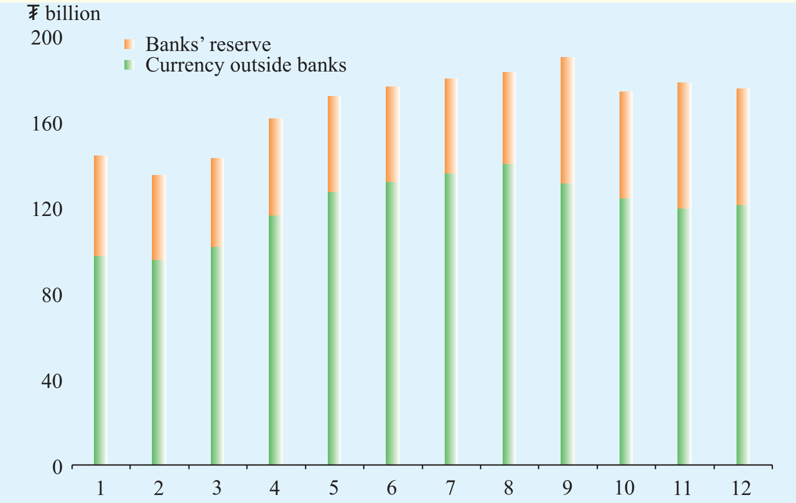


Figure 24. Dynamics of reserve money in 2002



of reserve money and stabilizing its growth through applying indirect instruments of monetary policy. As for the result, at the end of 2002, the Bank of Mongolia was able to accomplish the targeted level of reserve money, which was established within the framework of the "Poverty Reduction, Growth Facility" (PRGF) project implemented jointly with the International Monetary Fund (IMF).

3.2. Money market

The central bank, government, and commercial banks are the major players on the money market and its activities are more transparent and open in comparison to other markets.

The Bank of Mongolia issued Central Bank Bills (CBB) with four different maturities (7, 14, 28, and 91 days), at a discounted value. In total, 1.0 million CBB were issued and 0.8 million of them were sold in 98 trades. The nominal price of each CBB was 1.0 million togrogs. The issuance of bills increased by 0.4 million or 1.7 times and bill sales grew by 0.3 million or 1.6 times from an average of last 3 years.

Banks allocated approximately 13.8 percent of their accumulated assets in the CBB per day in 2002.

In the reporting period, 86.2 billion togrogs bills were sold at the CBB secondary market in 94 trades. Compared to the previous year, the bills increased by 35.2 billion togrogs or 1.7 times, and 53.0 billion togrogs or 2.6 times from the 2000.

According to the Governor's Resolution 552, Bank of Mongolia, in November 2002, the Bank of Mongolia started compiling monthly information on "Inter-bank money market" in terms of developing inter-bank money market.

23.2 billion togrogs were traded on the inter-bank market in 2002. Out of total, 1.0 billion togrogs is by inter-bank credit, 13.8 billion togrogs is by repo agreement, 8.1 billion togrogs is by CBB, and 0.3 billion togrogs is in overnight loans.

Government treasury bills are issued not only to cover temporary budget deficits, but also as an important tool for the money market. In 2002, the Government issued Government bills with four different (short term discounted bond, short term simple bond, medium term special purposes bond and medium term discounted bond) and the total trades amounted to 50.1 billion togrogs. One of the specific characteristics in the reporting year was the issue of 2 new medium term government bonds (discounted and special purposes).

Compared to the same period of the previous year, Government traded bonds increased by 10.4 billion togrogs or 26.2 percent and remaining balance at the end of the year increased by 3.7 billion togrogs or 1.5 times in 2002.

In 2002, total government bonds were traded under following categories; 39.1 billion togrogs or 78.0 percent short term discounted bond, 6.0 billion togrogs or 12.0 percent short term simple bond, 2.5 billion togrogs or 5.0 percent medium term special purposes (way) bond and 2.5 billion togrogs or 5.0 percent medium term discounted bond. Whereas, for ultimate remaining bond; 2.5 billion togrogs or 40.9 percent was medium term special purposes (way) bond, 2.5 billion togrogs or 40.9 percent was medium term discounted bond and 1.1 billion togrogs or 18.0 percent was short term simple bond.

48.3 billion togrogs or 96.4 percent government bonds of the total traded bonds were bought by the commercial banks such as Trade and Development bank, Agricultural bank, Golomt bank and other banks that participated on bonds trade regularly and actively.

With 1-3 months, 4-6 months and 1-year maturities on Government bonds interest rates tend to rise or be stable in the first 3 quarters of the year, and decrease at end of year, whereas with 1.5-2 years maturities on bonds interest rates increase at end of year. This is a bond (93.7 percent is 1 year maturity) issued by the Government mainly to compensate temporary budget deficits of current year and payoff at end of year. Thus, there is tendency longer government bonds maturity become bond with high paid interest rate.

The weighted average interest rate on Government short term discounted bonds was 11.6 percent which is 2.1 percentage points under the weighted average interest rate on CBB in the reporting year. Also the weighted average interest rate on ultimate outstanding was 9.34 percent, which is 1.3 percentage points under interest on CBB.

3.3. Capital market

The fact that one of the forms of financial intermediation, the stock market still remains weak and it has a negative influences in terms of access to capital. Nevertheless, the law on "Stock market" has been approved by Great State Hural and "New century", "Niislel Orgoo" bonds have been traded and put foundation for positive developments. In 2003,

Table 10. Trading, outstanding of Government bond

In billions of togrog

Classification of Government bond	2001		2002	
	trading	outstanding	trading	outstanding
Short-term discounted bond	39.7	2.4	39.1	1.1
Short-term bond			6	
Savings			2	
The Bank of Mongolia			4	
Medium-term special purpose /road/ bond			2.5	2.5
Medium-term discounted bond			2.5	2.5
Total	39.7	2.4	50.1	6.1

the Bank of Mongolia is planning to provide legal environment for a mortgage lending law and to manage and coordinate the loan procedure within the banks, which will serve this kind of loan product.

Mongolian Stock Exchange

During the year 2002, the total volume at the MSE was 9.8 millions shares, 465.0 thousand government bonds, and 317.5 thousand corporate bonds through 255 transactions, which worth 46.0 billion togrogs. Trade of government bond was 90.6 percent or 41.7 billion togrogs; corporate bond trading was 6.4 percent or 3.0 billion togrogs; and stocks trading 3.0 percent or 1.4 billion togrogs. In comparison with the same period of the previous year, the stock trade has decreased in total amount by 348.7 million togrogs which is equivalent of total trade to 20.2 percent or 6.0 million shares in volume which is equivalent to 38.0 percent of total trade.

By the end of the reporting year, 475.1 million shares or 72.3 percent were owned by the state, and 182.1 million shares equivalent to 27.7 percent were owned by private shareholders. The total of 657.2 million shares reflected the ownership of 403 registered companies (particially or fully state owned 61, fully privatized 342).

In 2001, the registered number of stocks was 274.2 millionwhich increased by 2.4 times, to 657.2 million in 2002. 60.2 percent of the total number of shares were newly registered shares in the energy sectorwhere entities were corporatized. Based on the principle that investment increases as the registered number of corporations rises, one should note that number of registered companies increases artificially as preparatory work to privatization.

According to the last 2 years data, in 2001, the total value of trade has increased by 19.6 billion togrogs from the 2000, and by 12.3 billion togrogs in 2002, from 2001. In the reporting year, 166.7 million togrogs of the total trade were state owned shares, 532.0 million togrogs worth of portfolio shares is owned by APU, Baganuur, Bayangol, Mongolian Telecommunication, and Talkh chiher companies. The free traded shares occupied 49% of total trade and 1.4% of total value of transactions.

In 2001, 153 companies were registered in accordance with the revised regulation on “Listing procedure of MSE”. By the end of 2002, from a total of 403 registered limited liability companies, only 37 companies were categorized as top level and remaining 366 companies as a low-grade (companies that did not submitted a financial report were categorized as low-grade).

By the end of the reporting year, the TOP-75 index reached 933.93 point, which is 119.9 points higher than that of previous year. The TOP-75 index achieved its highest point of 1450.4 in October 10, 2002. Currently, the Mongolian Stock Exchange estimated TOP-75

Figure 25. TOP-75 Index

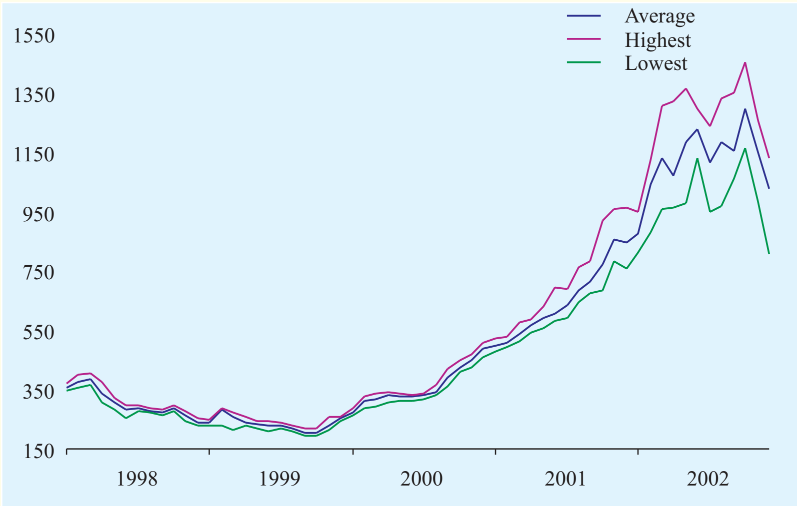


Figure 26. Market capitalization

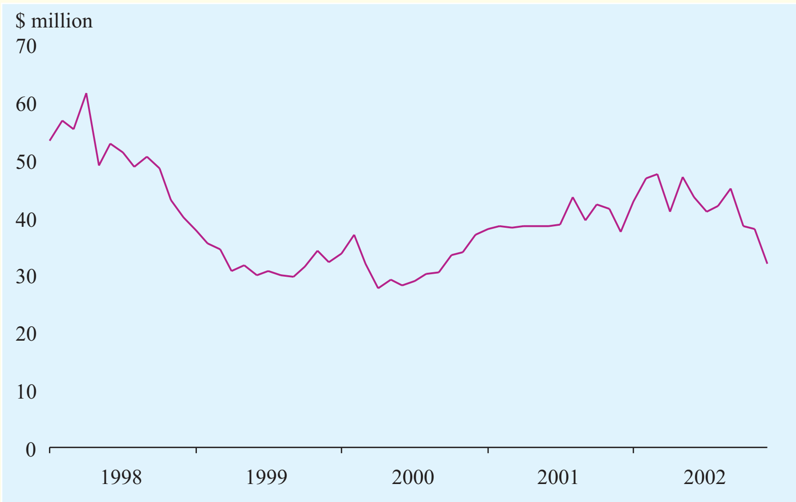


Table 11. Trading information of company bond

Bonds	Traded		Share
	Number	Amount	
			In millions of togrog
Shine zuun	174549.0	1746.0	59.0
Ikh barilga	99493.0	994.9	33.6
Niislel orgoo	43425.0	217.1	7.3
Total	317467.0	2958.0	100.0

index basket by 20 high market rated companies in accordance with the regulation on evaluation of the price indices and adjustments on price estimation program.

During the reporting year, the government treasury bonds were sold 19 times, of which 5 sales equivalent to 27.0 thousand bonds each worth 10000 togrogs were to the public. The fact that the Government treasury bond transaction amount has exceed that of last year by 112.5 million togrogs in 2002, depreciated interest payables on bond. In comparison with the previous year, the number of government treasury bonds has increased, although it decreased in total amount by 41.3 million togrogs. This caused by the excess supply, which allowed trade participants with provision to agree with each other.

The Government's substantial actions on the development of the Stock exchange will provide a favorable environment for further financial sector development.

According to the Government and Great State Hural resolution, and an order of the Minister of Finance and Economy, the discounted bond have been registered and additional bonds, such as "New Century" of Building corporation, "Niislel Orgoo" of Niislel Orgoo company, and "Ikh barilga" of Altan khot corporation have been evaluated and registered.

In 2002, company bond trade has intensified and exceed that of last year by 1.80 billion togrogs. By overlapping number of shares in company bond volume has been totally sold 317.5 thousand shares, and 3.0 billion togrogs worth transaction have been made. Furthermore, 250 "New century" bonds have been sold in the secondary market.

Table 12. Bond settlement

In millions of togrog

Bonds	Number	For income of bond	For payments of bond and interest
Government bond	465010	41.6	41.6
Shine zuun	174597	1.7	1.2
Ikh barilga	99493	99.1	
Niislel orgoo	43425	216.3	

Box 6. Foreign direct investment to the transition economies

The amount of foreign direct investment to the transition economies has reached 31 billion USD in 2002, which was the highest ever amount. This is directly related to the macro economic stability in those regions, improvements of activities at the capital markets, intensifications of reforms, and a more favorable investment environment.

/in millions of US dollars/

		1995	1996	1997	1998	1999	2000	2001	2002
Central eastern Europe and the Baltic states	Croatia	109	486	347	835	1,445	1,086	1,325	970
	Czech Republic	2,526	1,276	1,275	3,591	6,234	4,943	4,820	8,000
	Estonia	199	111	130	574	222	324	343	300
	Hungaria	4,410	2,279	1,741	1,555	1,720	1,090	2,103	2,559
	Latvia	245	379	515	303	331	400	170	250
	Lithuania	72	152	328	921	478	375	439	395
	Poland	1,134	2,741	3,041	4,966	6,348	8,171	6,502	5,000
	Slovak Republic	194	199	84	374	701	2,058	1,460	4,000
	Slovenia	183	188	340	250	144	110	338	553
	Average (CEB)	9,072	7,811	7,801	13,369	17,623	18,557	17,500	22,027
South-eastern Europe	Albania	89	97	42	45	51	141	204	153
	Bosnia and Herzegovina	98	138	507	537	789	1,003	641	800
	Bulgaria				100	90	150	130	200
	FR Yugoslavia			740	113	112	25	165	300
	FYR Macedonia	12	12	18	175	27	175	445	70
	Romania	417	415	1,267	2,079	1,025	1,051	1,154	1,200
	Average (SEE)	616	662	2,574	3,049	2,094	2,545	2,739	2,723
Commonwealth of Independent States	Armenia	25	18	52	221	122	104	70	75
	Azerbaijan	330	627	1,115	1,023	510	119	227	1,300
	Belarus	15	105	350	201	443	90	84	146
	Georgia	6	54	236	221	60	152	100	80
	Kazakhstan	964	1,137	1,320	1,143	1,584	1,245	2,760	2,500
	Kyrgyz Republic	96	47	83	86	38	-6	22	25
	Moldova	73	23	71	88	34	128	60	100
	Russia	1,460	1,657	1,679	1,496	1,103	-496	-137	1,000
	Tajikistan	10	18	18	25	21	24	9	20
	Turkmenistan	233	108	108	62	125	126	133	150
	Ukraine	257	516	581	747	489	594	769	750
	Uzbekistan	-24	90	167	140	121	73	71	75
	Average (CIS)	3,445	4,400	5,780	5,453	4,650	2,153	4,168	6,221
	Total	13,132	12,872	16,153	21,871	24,367	23,254	24,407	30,971
	Mongolia	9.8	15.9	25	18.9	30.4	53.7	43	77.8

The majority of the foreign direct investment in those transition economies was made as a result of privatization activities. Since the foreign direct investment does not create any additional foreign debt, it is an effective way to make up the current account deficit.

In Mongolia, the amount of foreign direct investment (77.8 million USD in 2002) is relatively low compared to the other transition economies, which is related to the size of the economy and ability to absorb.

The natural resources of Azerbaijan, Kazakhstan, Russia and Turkmenistan have attracted foreign investment while Poland, Romania and Russia with their large markets were also favorable environments to invest. In addition, foreign direct investments were made in large amounts to the countries preparing to join the EU.

Privatization

According to the "Guidelines for the privatization of State property in 2002" approved by Government Resolution 09 of 2002, 14 companies were privatized, 11 real estate properties were sold, and 15.9 billion togrogs were generated for the budget, which is higher than the 2001 figure by 5.2 billion togrogs (3 times higher).

"Trade and Development Bank", laboratory of "NIC" Co., "Sergelt Avto Zam" Co., "Gal" Co., uncompleted building of "Freezing storehouse" Co., "Tsaiz" Co., "National Stocks" Co., "Mongol Post Bank" Co., State Property committee's gym, and "Khovsgol auto road" Co., were all privatized. Also, 67 percent of state owned management of the company "Berkh-Uul" has been privatized through a contract, and the contract will be evaluated in next year.

Box 6. Foreign direct investment to the transition economies (continue)

Foreign direct investment per capita is an appropriate indicator to show transition economies' ability to attract foreign investments. By the criterion of foreign direct investment per capita, Czech Republic and Slovak Republic are the leaders compared to the others. For the South-Eastern European countries, foreign direct investment tends to be increasing as a result of the improvements in economies of all countries except Macedonia. In the case of Commonwealth of Independent States (CIS), a trend of an increase in the investment is observed due to the electricity availability.

		1995	1996	1997	1998	1999	2000	2001	2002
Central eastern Europe and the Baltic states	Croatia	23.2	108.0	75.4	185.6	314.1	248.0	297.0	215.6
	Czech Republic	245.2	123.9	123.8	348.6	605.2	479.0	468.0	776.7
	Estonia	142.1	79.3	92.9	410.0	158.6	237.0	252.0	214.3
	Hungaria	432.4	223.4	170.7	154.0	172.0	109.0	207.0	255.9
	Latvia	98.0	151.6	206.0	126.3	137.9	169.0	72.0	108.7
	Lithuania	20.0	42.2	91.1	263.1	136.6	108.0	126.0	112.9
	Poland	29.4	71.0	78.6	128.3	164.0	211.0	168.0	129.2
	Slovak Republic	35.9	36.9	15.6	69.3	129.8	381.0	270.0	740.7
	Slovenia	91.5	94.0	170.0	125.0	72.0	55.0	171.0	276.5
	Average (CEB)	115.3	99.5	99.1	170.7	225.1	222.0	226.0	282.0
South-eastern Europe	Albania	27.8	29.4	12.4	13.2	15.0	41.0	66.0	49.4
	Bosnia and Herzegovina	11.7	16.6	61.1	65.5	96.2	123.0	79.0	98.8
	Bulgaria	-	-	-	23.8	20.9	35.0	30.0	46.5
	FR Yugoslavia	-	-	69.8	10.7	13.3	3.0	19.0	34.9
	FYR Macedonia	6.0	6.0	9.0	87.5	13.5	88.0	223.0	35.0
	Romania	18.4	18.4	56.1	92.4	45.6	47.0	52.0	53.8
	Average (SEE)	12.1	13.0	50.4	59.9	42.9	56.0	78.0	56.3
Commonwealth of Independent States	Armenia	8.1	5.6	16.8	71.3	39.4	33.0	22.0	24.2
	Azerbaijan	42.9	80.4	141.1	127.9	63.8	15.0	28.0	160.5
	Belarus	1.5	10.2	34.3	19.7	44.3	9.0	8.0	14.6
	Georgia	1.1	10.0	43.7	40.9	11.1	28.0	19.0	14.8
	Kazakhstan	60.3	72.4	85.2	75.2	106.3	84.0	186.0	173.6
	Kyrgyz Republic	21.3	10.2	18.0	18.3	8.1	-1.0	5.0	5.2
	Moldova	17.0	5.3	16.5	20.5	7.9	35.0	17.0	27.8
	Russia	9.8	11.2	11.4	10.2	7.6	-3.0	-1.0	6.9
	Tajikistan	1.7	3.1	3.0	4.1	3.4	4.0	1.0	2.9
	Turkmenistan	50.7	23.0	22.0	12.4	24.0	23.0	24.0	26.8
	Ukraine	5.0	10.1	11.4	14.8	9.8	12.0	16.0	15.3
	Uzbekistan	-1.1	3.9	7.1	5.8	4.9	3.0	3.0	3.0
	Average (CIS)	12.1	15.5	20.4	19.3	16.5	20.0	27.0	22.1
	Total	139.5	128.0	169.9	249.9	284.5	298.0	331.0	360.4
	Mongolia	4.4	6.8	10.6	7.9	12.9	22.5	17.0	23.1

Although Mongolia has a lower amount of foreign direct investment compared to the other transition economies, its foreign direct investment per capita is higher than some CIS countries. By the amount of foreign direct investment per capita, Mongolia is similar to the average amount of CIS, half of the SEE average, and one-tenth of that of CEB.

The lower amount of foreign direct investment to Mongolia compared to the other transition economies results from its geographical location and small economy. The majority of the foreign direct investment in Mongolia is in natural resources (mining); factories using the discount offered to Mongolia when entering into the USA market, cashmere as one of the scarce raw materials, and the service sector whose services are directly supplied to the market. Most importantly, macroeconomic and political stabilities play significant role in attracting foreign direct investments.

The preparatory work on the privatization of the most valuable companies, such as "Gobi" Co., "Mongolian Telecommunication" Co., "Mongolian Insurance" Co., and "NIC" Co., has been started. In 2002, the preparatory work in the tender process of "Agricultural bank" was successfully completed in January, 2003. Also, the State Property Committee (SPC) is planning to tender the contract to execute the management of the "MIAT" Company's jointly with the European Reconstruction and Development Bank (ERDB).

The "Guidelines on social sector reform, innovation and privatization" have been jointly elaborated with the Ministry of Education, Culture and Science, Ministry of Health and Ministry of Social Welfare and Labor and approved by the Great State Hural Resolution number 56 of 2002. The list of organizations that should be reformed, innovated and privatized has been released and agreed with the Great State Hural's Social and Economic

Policy Standing Committees and is going to be approved by the Government. In the frame of this operation, SPC drafting the regulations on performance and innovation of 25 organizations and the regulations on the privatization of 14 social sector organizations in 2003.

In addition, the SPC is focusing on transforming 18 state owned companies subject to the energy sector structural reform, program of 2000, into commercial entities, in accordance with the Company Law of Mongolia.

4. BANKING SECTOR DEVELOPMENT

4. BANKING SECTOR DEVELOPMENT

As of end of year 2002, 16 banks and 66 non-banking financial institutions were operating in Mongolia through 595 units (96 branches, 481 settlement units, 18 cash units). Currently, total of 470 branches of 13 banks are providing services in the local aimags and soums, which is higher by 30 units from the previous year, and it represents 79 percent of total branches.

As a consequence of the improvement of the banks liquidity, public confidence in the banking system has increased and there have been several positive changes such as an increase of the total asset of the banking system by 48.2 percent, demand deposit by 50.0 percent, saving deposits by 62.2 percent, banks capital by 29.9 percent, and a decline of percentage of the non-performing loans in total loans.

In the reporting period, the amount of all banks' assets has gone up and the ratio of money supply or M2, the main indicator of financial intermediation, to GDP has increased by 8.5 points from the previous year, 12.8 points from 2000, reaching 38.2 percent, the highest ever level since 1990.

At the end of the previous year, out of 16 banks that are operating in Mongolia, 2 were fully, 4 were partially state owned, and the remaining 10 were private banks (one of which was foreign bank); however, in the reporting period, 2 fully, 2 partially state owned banks and 12 private banks were operating, and the privatization of the Agricultural bank is currently in progress. In 2001, 77.9 percent of demand deposit and 58.6 percent of saving deposits were concentrated at the state-owned banks; however, in 2002, the above percentages were decreased to 22 percent and to 30.3 percent respectively. This is partially due to the privatization of the Trade & Development Bank, and a start of intense activities of the private banks.

As a result of a policy to promote activities of banks with relatively more branches in the local area, the public confidence in banks in rural areas has been significantly improved. Consequently, the banks were encouraged to establish their branches in the local areas

Table 13. Main indicators of banking sector

	1996	1997	1998	1999	2000	2001	2002
M2/GDP	19.9	20.4	20.5	25.2	26.4	29.7	38.2
Loan/GDP	10.2	6.1	11.6	9.4	6.8	12.1	18.8
Capital/GDP	-2.1	2.0	0.9	2.2	3.1	4.2	5.0
Total assets/GDP	21.3	23.6	22.0	22.9	23.1	29.8	40.1
Currency outside banks/GDP	6.5	6.0	6.9	10.0	10.3	9.7	9.8
(M2-Currency)/GDP	13.4	14.4	13.6	15.2	16.1	19.6	28.4

Figure 27. Money supply, currency outside banks (percentage of GDP)

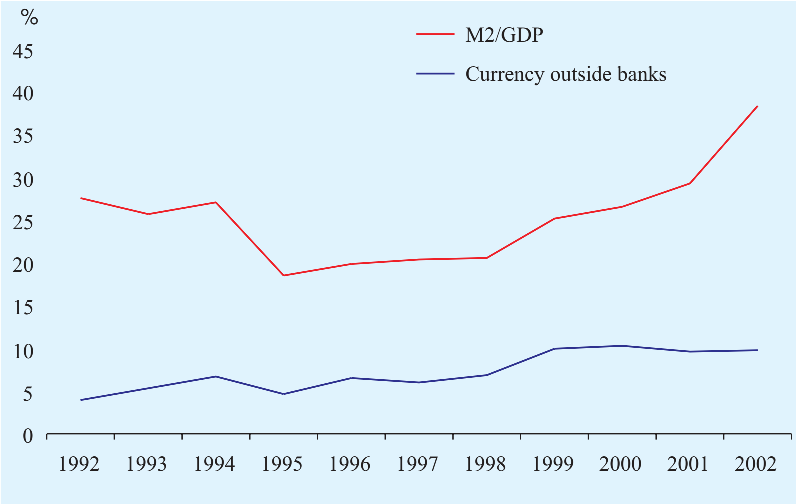


Figure 28. Non-performing loans

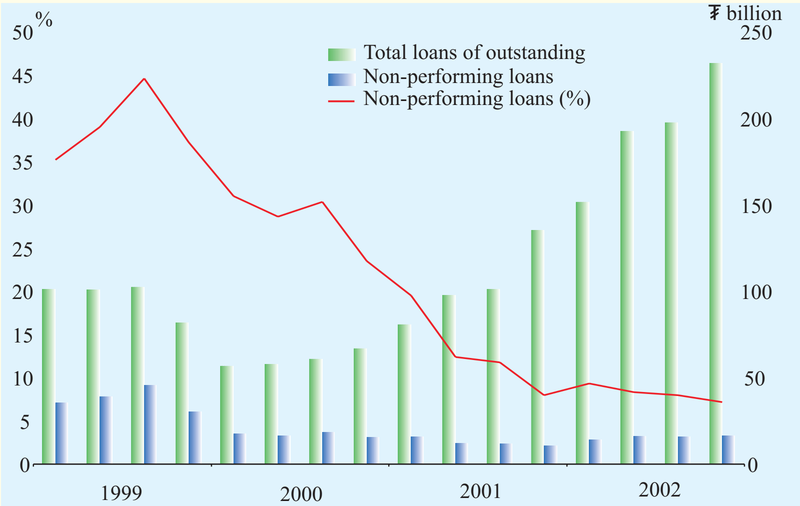
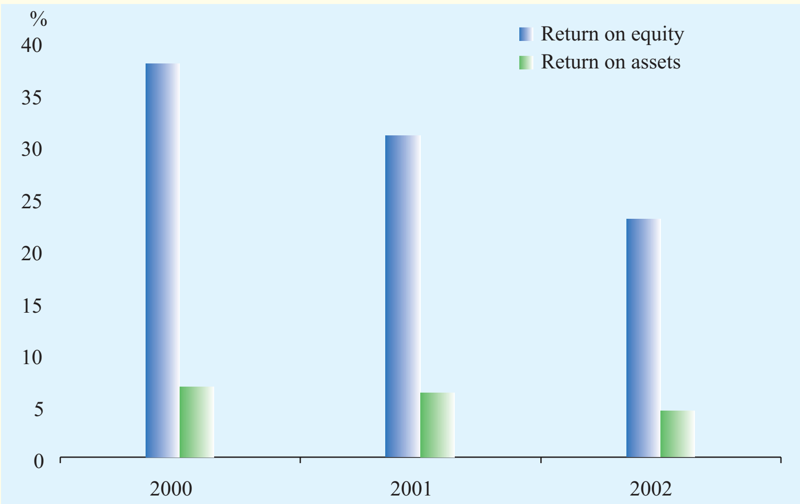


Figure 29. Return on equity and assets



and the amount of demand deposit in those areas has grown by 4.2 billion togrogs or by 23 percent and the amount of saving deposits by 9.9 billion togrogs or by 85.4 percent, outstanding loan by 24.6 billion togrogs or by 2.8 times, and their income amounted to 7.3 billion togrogs, which represents 40 percent of the total income before tax. The number of demand deposit holders increased twice and borrowers increased 2.8 times. Compared to the previous years, the liquidity and profitability of the Agricultural bank has significantly improved, and the percentage of its asset growth was 1.8 times more than the percentage of the asset growth of the sector. Moreover, the Agricultural bank has become one of three largest banks in terms of its scope of operations.

In order to expand their market share, the banks are competing for funds by offering attractive interest rates, which in consequence, hinder deposit rates to decline to appropriate level. On the other hand, although it is creating risks for the banks, the tendency to introduce new financial services and products is increasing. Creation of active and broad cooperation with banks of the main trade partner countries, issuance of payment cards in accordance to customers' demand and preferences, and internet banking services can be mentioned as examples. The Golomt bank and the Trade and Development bank were issuing only internationally usable Visa and Master Cards previously; however, they have started issuance of domestic cards beginning from 2002.

One of the main changes in the financial sector during recent years is an inclusion of the objective regarding promotion and expansion of activities of NBFIs in the Parliament approved "Main Guideline of the State Monetary Policy". As a result, 2 NBFI's were

Table 14. Banks' branches and units (as at end of the 2002)

	Ulaanbaatar city		Countryside		Total	
	Number of branches & units	Changes[1]	Number of branches & units	Changes[1]	Number of branches & units	Changes[1]
1 Agriculture	11	4	352	25	363	29
2 Trade and development	8	0	10	-1	18	-1
3 Savings	32	1	9	0	41	1
4 Golomt	10	0	2	0	12	0
5 Post	9	8	62	-1	71	7
6 Erel	3	0	1	0	4	0
7 Ulaanbaatar city	16	0	2	0	18	0
8 Shinechlel	5	3	1	0	6	3
9 Transport and development	3	-1	0	0	3	-1
10 Credit	4	3	1	0	5	3
11 Zoos	4	0	6	0	10	0
12 Anod	7	0	3	-1	10	-1
13 Inter	2	1	1	0	3	1
14 Capitron	3	2	0	0	3	2
15 XAS	7	-1	20	8	27	7
16 Menatep	1	0	0	0	1	0
Total	125	20	470	30	595	50

[1] Annual changes

Box 7. Bank and financial sector objectives and problems

Since 2000 the banking system has been revived, loans and deposits have been growing, and the NBFIs have been rapidly expanding their activities. However, a second principal financial channel for the enterprises and individuals to fund their shortages at money-capital market is still almost defunct in Mongolia. Although the Mongolian Stock Exchange (MSE) has come to quite a vigorous start in 1991 on sale of privatization vouchers, towards the end of 1990s it became dysfunctional. Reviving the capital market might be a principal solution of encouraging more financial intermediation. First of all, government needs to address an issue of 1 billion Togrog of outstanding claims of the public deposited at the MSE. After that to revive capital market, it will be necessary to find proper institutional form for the restructured MSE.

Revival of the capital market would deepen financial intermediation, reduce the monopoly of the banks, and bring level of interest rate down.

It is paramount to keep government away from the loan making process. There have been enough proofs of the statement that the government is a very poor lender. If government is determined to support a few selective industries or willing to solve certain social problems through budget funding, then it ought to have separate budget-financed development bank while concentrating other profit-seeking activities at the commercial banks.

Due to the inability to enforce market exit for non-performing borrowers through bankruptcy or restructuring procedures, our banks, in turn, find themselves in financial difficulties. Looking at the experiences in Eastern Europe, there is strong tendency for banks due to loan default to engage in enterprise restructuring or bankruptcy exercises by means of asset sale, management change or receivership. How many enterprises made bankrupt by the banks because of overdue loans may we find in our case?

Truly independent, away from the influence of the bank CEO and other top management, an internal audit unit is essential for the health of a bank.

Due to the upcoming mandatory increase in minimum capital of the banks to 4 billion Togrogs by end-March of 2004, some bank consolidation might take place within next 2 years. Some smaller banks may be taken over, or others will merge, even so looking from past bank consolidation experiences it seems that Mongolian bankers are not good at mergers or at least in attempts to do so.

Poor coordination among banks can also be seen from the fact that co-financing never materialized for our banks. Co-financing provides an opportunity for banks to pool their limited resources and consequently diversify risks to finance projects that require substantial funding such as in manufacturing or infrastructure.

Looking at the market scope in Mongolia, one may judge that SME financing can be attractive niche in the future.

The Central bank’s ability to steadily contain inflation within the range of annual 4-5 percent shall break ground for banks to start lending at annual 8-14.4 for the maturity of 12-24 months. With a decline in lending rates and prolongation of the loan period, the modality of lending might change with loans shifting from commerce to investment or manufacturing.

Mongolia is country with a vast geographical area and the matter of equal coverage of different regions with financial services is a pivotal issue. Equal distribution of rural finance may be resolved by combining presence of Agricultural and HAS banks’ network with rural NBFIs, both supported by certain donor-funded projects aimed at reaching to out to the rural populace and all of this supplemented by micro-loan cooperation among rural folks.

Land is an asset which is the most abundant in Mongolia and which is still out of any economic and monetary circulation. Recent passage of package of land-related laws will stimulate conversion of land into valuable economic asset. Substantial amount of value added will be created instantly once land becomes an asset, in addition, land ownership will support mortgage lending of the banks. Land privatization also might attract some foreign funds.

With improvements in accounting procedures of domestic business units and progress in auditing, credit rating of business units based on their books will gradually appear.

Box 7. Bank and financial sector objectives and problems (continue)

By expanding the role of the Bankers Association of Mongolia (BAM), it is possible to transfer commercial or quasi-commercial activities such as clearing settlement, Credit Information Bureau, Bank Training Center currently the auspices of the Bank of Mongolia into the private sector. Credit rating mentioned above can also be divested. To prevent corruption and other criminal actions among bankers, very strict ethics code of the Mongolian banker should be enforced with the help of the BAM.

With increasing bank competition, banks will be in desperate need for good market or economic research. Here, in particular, requirements towards the Bank of Mongolia's ability to forecast, advise and search will be heighten. Through determination of existing trends in economics or banking, through capacity to correctly specify tendencies of future development, the Bank of Mongolia ought to improve her policy formulation and decision-making.

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

launched in 1999, 5 in 2000, 21 in 2001, and 41 NBFIs were newly established in the reporting period.

4.1. Banking sector

In 2002, the total assets of the banking system increased by 160.3 billion togrogs or 48.2 percent, reaching 40 percent of the GDP. The rapid growth of assets became realizable mainly due to an increase of 43.7 billion togrogs in demand deposits, 83.8 billion togrogs in saving deposits (which includes an increase of 82.2 billion togrog in the individual saving deposits), and 14.1 billion togrogs in the banks' capital.

45.2 percent of the total assets in the banking sector are net loans, 14.3 percent are foreign assets, 12.3 percent are the Central bank bills (CBB), 11.1 percent are bank reserves, and 6.2 percent are claims on the government. Compared to the previous year, the percentage share of all assets in total assets except net loan and bank reserves has decreased. However, if we consider the changes in each asset, bank reserves have increased by 57.5 percent, claims on domestic banks and the CBB by 30.0 percent, outstanding net loans by 73.7 percent, other securities by 5.5 times, fixed assets by 22.9 percent, securities purchased through repo agreement by 2.8 times, and the other assets by 34.6 percent. In other words, net claims on the government and other real estates owned have decreased while net balance of the securities other than net loan, CBB, and government bond have had rapid growth.

During the reporting year, the total liabilities of the banking sector have increased by 51.2 percent or 146.1 billion togrogs, which includes an increase of individual and enterprise deposits by 57.4 percent, demand deposit by 30 percent, and foreign liabilities by 5.3 percent. The composition of the bank's liabilities has been relatively stable compared to the previous year and 50.6 percent of the total liabilities is individual and enterprise saving deposits, 30.3 percent is demand deposits, 6.9 percent is government deposits, and 3.2 percent is other liabilities.

Table 15. Loan report of banking sector (in billions of togrog)

2002.12.31

	Beginning of year	Loan issuance	Loan payment	Outstanding
Total loan	135.1	469.7	374.3	231.3
Manufacturing	77.0	195.2	156.6	118.0
Agriculture, hunting, forestry and fishing	7.6	13.0	12.1	8.4
Electricity, gas and water supply	4.1	9.1	9.5	3.5
Construction	7.4	18.9	12.1	14.3
Mining and quarrying	19.9	80.9	65.5	35.6
Processing	38.0	73.3	57.4	56.2
Non-manufacturing	58.1	274.5	217.7	113.3
Whole and retail trade, repair of household goods	38.8	178.7	144.6	72.9
Tourism, hotel and restaurants	3.9	8.2	7.0	4.0
Transport, storage and communication	2.9	11.8	8.7	6.0
Real estate, renting and business activities	1.1	4.5	3.3	2.2
Health and education	1.2	1.6	1.9	1.0
Financial intermediation	0.5	4.0	3.0	1.1
Others	9.7	65.7	49.2	26.1

As seen from the above, the majority of the resources created through the growth of demand deposits, saving deposits, and capital has been allocated as loans and this is on the one hand, directly related to the increased public confidence in the banking system, and in the other hand, to the improved financial capacity of the borrowers. Net loan has increased, and the percentage share of the net loan in the total asset has risen by 6.7 points, reaching 45.2 percent, which is considered to be high percentage compared to the previous years; in addition, the percentage of all assets other than net loans in total assets has declined. As a result of the measures to provide conditions for utilizing excess reserves of the banks for loans, which was taken within the framework of the "Main Guideline of the State Monetary Policy", shares of net loans in total assets has increased, the weighted average lending rate of togrog loans decreased by 8.0 points, and that of foreign currency loan by 2.4 points from the previous year.

In 2002, a total of 469.9 billion togrog of loans have been granted, which is 81.3 percent

Table 16.Changes of loan, deposits and currency outside banks

In millions of togrog

	1996	1997	1998	1999	2000	2001	2002
Total loan outstanding	65860.9	50763.0	94614.1	82000.0	67000.0	135270.0	231729.8
Change	-0.7	-22.9	86.4	-13.3	-18.3	101.9	71.3
Non-performing loans	33048.0	14544.8	32638.9	30504.0	15718.0	10821.6	16690.1
Change	145.1	-56.0	124.4	-6.5	-48.5	-31.2	54.2
Deposits	45917.8	58469.4	59308.7	69978.2	92686.2	134607.4	218359.6
Change	-2.4	27.3	1.4	18.0	32.5	45.2	62.2
Currency outside banks	41704.4	49768.3	56445.8	87281.3	100933.4	109160.7	120783.6
Change	63.0	19.3	13.4	54.6	15.6	8.2	10.6

higher than the previous year and the ratio of loans issued to the industrial sector to total loans has declined by 10.4 points from 2001, falling to 41.5 percent with 58.5 percent of total loans being made to the non-industrial sector. Of the non-industrial sector loans, the amount of loans granted to wholesale and retail businesses, tourism, hotel, transportation and communication sectors have increased significantly. Loans to the industrial sector have increased by 33.1 percent while loans to the other sectors have increased by 120.4 percent compared to the last year.

Under the authority afforded by the law, the Bank of Mongolia has established the minimum amount of the bank's equity capital to be 4 billion togrogs and has obliged the banks to increase their equity capital to the above amount within the first quarter of 2004; consequently, a tendency of increasing the capital was observed during the reporting period. At the end of 2002, bank capital has increased with a growth in the equity capital and income and reached to 43.1 billion togrogs with an increase of 14.1 billion togrogs or 29.9 percent from the same period of the previous year

Compared to the previous year, the total income of banks increased by 62.2 percent and total expenditures by 84.8 percent, and profit increased by 11.5 percent. Although the banks' interest income has doubled because of their allocation of a high amount of assets to loans, the growth of total expenditures was caused by an increase of interest expenditure and an increase in the provision for loan losses. Enhanced competition among the banks is revealed by changes in interest rates offered for their liabilities and assets. Banks

Table 17. Banks' income and expense

In billions of togrog

	2002		2001		2000		2002/2001		2002/2000	
	Amount	Share[1]	Amount	Share[1]	Amount	Share[1]	Amount	Share[2]	Amount	Share[2]
Total income	84.6	100.0	52.1	100.0	36.5	100.0	32.4	62.2	48.1	131.6
Interest	57.9	68.4	35.0	67.1	22.6	61.9	22.9	65.5	35.3	156.1
Trading	12.3	14.5	5.1	9.8	1.2	3.3	7.2	140.4	11.1	927.9
Exchange revaluation	4.1	4.9	2.5	4.8	5.2	14.4	1.6	64.4	-1.1	-21.2
Fee	7.3	8.6	5.2	10.0	3.8	10.5	2.1	39.6	3.5	91.0
Other	3.0	3.5	4.3	8.3	3.6	10.0	-1.3	-31.1	-0.7	-18.5
Total expense	66.7	78.9	36.1	69.2	24.6	67.3	30.6	84.8	42.2	171.5
Interest	24.2	28.7	13.4	25.7	8.5	23.4	10.8	80.7	15.7	183.9
Reserves for risk	5.9	7.0	2.3	4.4	2.1	5.8	3.6	156.7	3.8	177.3
Trading	11.4	13.5	3.7	7.1	0.2	0.5	7.7	207.0	11.2	6664.3
Exchange revaluation	3.8	4.5	2.5	4.9	5.3	14.5	1.3	51.2	-1.5	-27.5
Personnel	9.5	11.2	5.9	11.3	3.0	8.2	3.6	61.1	6.5	216.0
Depreciation	1.9	2.2	1.2	2.3	0.7	1.9	0.7	55.9	1.2	170.1
Other	9.9	11.8	7.0	13.5	4.2	11.5	2.9	41.8	5.8	137.1
Net profit before tax	17.8	21.1	16.0	30.8	11.9	32.7	1.8	11.2	5.9	49.5
Tax[1]	6.8	8.1	6.2	11.8	0.6	1.5	0.7	10.6	6.3	1127.8
Net profit	11.0	13.0	9.9	18.9	11.4	31.1	1.1	11.5	-0.4	-3.3

[1] -share of total income

[2] -percent of changes

Box 8. Deposit insurance

During the recent years, financial difficulties of some banks were rendering instability of the financial sector and eventually, were negatively affecting the stable economic growth and development. As a result of bank's lack of ability to meet deposit holders' demand, public lost its confidence in the banking system, and large amounts of financial resources started circulating outside the banks. On account of this, the scope of financial intermediation tightened and monetary inflow to the real economy decreased.

In most cases, the state endured the burden of reissuing deposits of bankrupt banks to their customers. For instance, within the frame of the reform, between 1996-1999, the state spent total of 70 billion togrogs, which is about 40 percent of the budget revenue, and 7 percent of the GDP.

Therefore, in order to prevent possible future difficulties and to increase public confidence in the banking sector, it is mandatory to introduce deposit insurance system.

Although there is no specific model of deposit insurance structure and organization in the research works by international institutions, they usually advise to establish an appropriate standard based on the practices of insurance companies of other countries.

State authority body or, in most cases, the central banks have a complete supervision over deposit insurance matters and limit the activities to accept and reissue deposits. Insurance funds are established through pooling funds from Ministry of Finance and central bank. Further activities are financed through revenue from fees, charges, and investments.

Regarding the institutions to be included in the insurance system, it is right to include all banks, so that it will play an important role in diversifying the risks. For the deposits to be covered by this insurance, it is considered to be appropriate to include the deposits of small deposit holders, whose knowledge of risk management is insufficient and ability to protect one's rights is limited.

Deposit insurance in Mongolia

A working group to analyze the introduction of deposit insurance is established by the resolution of the Governor of the Bank of Mongolia, the Minister of the Ministry of Finance and Economics, and the Minister of the Ministry of Law and Internal Matters. It has completed the tasks of conducting research on outstanding balance of banks' demand deposits and deposits, getting acquainted with practices of other countries, communicating and exchanging opinions with international institutions responsible for deposit insurance matters.

The following table shows the banks' outstanding balance of deposits as of December 31, 2002.

Citizens' deposit outstanding (2002/12/31)

In millions of togrog

Citizens' deposit outstanding		Amount of deposits	Total amount of deposits	Share	No of savers	Share
0.0-0.5 millions	togrog	9940.2	10,750.80	5.2	345,677	89.1
	foreign currency	810.6				
0.0-1.0 millions	togrog	16380.8	17,928.20	8.6	360,925	93.1
	foreign currency	1547.4				
0.0-3.0 millions	togrog	33792.0	38,795.00	18.7	373,969	96.4
	foreign currency	5003.0				
0.0-5.0 millions	togrog	48780.4	57,853.40	27.9	379,056	97.8
	foreign currency	9072.9				
0.0-10.0 millions	togrog	71385.9	87,667.80	42.3	383,434	98.9
	foreign currency	16281.9				
Total	togrog	153136.0	207,390.18	100.0	387,758	100.0
	foreign currency	54254.1				

As shown in the table above, 89.1 percent of the total deposit holders or 345.7 thousand customers hold deposits of up to 500.0 thousand togrogs, which is in total 10.8 billion togrogs or 5.2 percent of the total deposit. Furthermore, if we add the deposit holders of up to 1.0 million togrogs, it will be 360.9 thousand customers or 93.1 percent of the total deposit holders, and their deposits are 17.9 billion togrogs or 8.6 percent of the total deposit. In this way, if we additionally consider deposit holders of up to 3.0 million togrogs, the number of deposit holders will be 374.0 thousand or 96.4 percent of the total with deposits of 38.8 billion togrogs or 18.7 percent of the total deposit amount.

If we consider up to 5.0 million togrog, 379.1 thousand customers or 97.8 percent of the total deposit holders hold 27.9 percent of the total deposit or 57.9 billion togrogs. On the other hand, if we set 10.0 million togrogs as maximum amount to be insured, then the inclusion will be 383.4 thousand customers of 98.9 percent of the total and 87.7 billion togrog or 42.3 percent of the total.

In addition, as seen from the table above, 3.4 percent of the total deposit holders or 13.1 thousand customers hold foreign currency deposit amounting to 54.3 billion togrogs or 26.2 percent of the total deposit.

The working group has drawn up a draft bill and according to the bill, the deposit insurance company will be an independent legal body, which is established on pooled funds from the Ministry of Finance and Economics and the Bank of Mongolia, and the inclusion of the deposit will be an individual's deposit of up to 5.0 million togrogs.

have decreased their lending rates and kept deposit rates stable in order to attract more customers; as a consequence, return on assets (ROA) has decreased by 1.4 points and has fallen to 4.4 percent.

4.2. Non-bank financial institutions

The Bank of Mongolia has started issuing licenses for performing specified bank activities to individuals and institutions in order to increase financial intermediation and promote activities of financial institutions, and in 2002, a total of 41 NBFIs have been licensed. The State Great Hural (SGH) and the government have approved the "Concept of Regional Development of Mongolia" and have been taking measures to fulfill equal social and economic development. Within the framework of the above measures, the Bank of Mongolia has widened the opportunity of deepening financial intermediation in rural areas through its establishment of different minimum capital requirements in urban and rural areas. Out of 66 licensed NBFI's, 60 are operating in Ulaanbaatar, 3 are in Darkhan, and the remaining 3 are located in Tov, Arkhangai, and Zavhan aimags. Therefore, it is essential to pay special attention towards providing favorable conditions to establish financial institutions in rural aimags. Approval of the "Non bank financial activity law" by the SGH is considered to be major motivation for the expansion of the NBFI activities.

Most of those NBFI's have been licensed to perform loan activities while a few of them were authorized to perform such activities as money transfer, financial leasing, and factoring. On the one hand, the NBFIs are not working adequately towards introducing new financial services and products, they are relatively new at the market, and their influence on the financial sector is somewhat low; therefore, the number of NBFI customers is small. On the other hand, the number of activities is not expanding due to the low living standards and incomes of the rural residents and a lack of information on NBFI combined with a lack of advertisement.

The total asset of the NBFI's has increased by 88.5 percent from the last year and it is equal to 8.9 percent of the total assets of the banking sector. Percentage share of the net loan in the total asset of NBFI was 80.6 percent and that of monetary assets was 10.9 percent. Furthermore, 83.5 percent of the total income was created by interest income and profits for the reporting year were 1.2 million togrogs.

Table 18. Nonbank financial institutions' indicators

In billions of togrog

	2000	2001	2002
Loans outstanding	1.5	13.2	36.0
Total assets	3.0	23.4	44.1
Total liabilities	1.4	3.1	18.4
Capital	1.6	20.3	25.7

5. CENTRAL BANK ACTIVITY

ORGANIZATION CHART OF THE BANK OF MONGOLIA

- Governor
  - First Deputy Governor
  - Deputy Governor
  - Board of Directors
    - Administration Department
      - Legal Division
      - Service Division
    - Monetary Policy and Research Department
      - Monetary Policy Division
      - Research Division
      - Banknote Division
        - Banknote Destruction Unit
    - Internal Audit Department
    - International Department
      - Reserve Management Unit
      - Foreign Relation Unit
      - Balance of Payment and Research Unit
    - Supervision Department
      - Supervision Division
      - Banking Division
      - Policy Regulation Division
    - Accounting and Information Technology Department
      - Domestic Settlement Unit
      - Foreign Settlement Unit
      - Interbank Settlement Unit
      - Research Unit
      - Information Technology Division
    - Domestic Branches (19) and Representative Office (1)
    - Bank Training Center
    - Representative Office in London

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 Internal Audit Department Ts. Tsolmon

Director of Accounting and Information Technology Department B. Lkhagvasuren

Director of Supervision Department L. Chimgee

Director of International Department Ts. Odongua

Director of Legal
Division G. Erdenebayar

Director of Service
Division J. Khaltar

Assistant to Governor,
Chief Economist
T. Ariuntungalag

Director of Bank
Training Center
D. Turbat

Director of Reserve
Management Unit
G. Tumurbaatar

Director of Monetary
Policy D. Boldbaatar

Director of Research
Division N. Amar

Director of Banknote
Division T. Khaltar

Director of Information
Technology Division
D. Gantulga

Director of Supervision
Division D. Ganbat

Director of Policy
Regulation Division
D. Badraa

Director of Banking
Division
G. Togtokhbaatar

5. CENTRAL BANK ACTIVITY

During the year 2002, the Bank of Mongolia has emphasized sustaining macroeconomic stability, strengthening the price and exchange rate stability that has been achieved in the last couple of years, deepening the recovery of the financial sector through continuing structural reform, accommodating real economic growth, and managing of foreign reserves optimally.

5.1. Monetary policy

Monetary policy in this year can be characterized as accommodative of the real economic upturn. Thus, the tight monetary policy, which had been pursued almost continuously since the second half of 90s, was relaxed. Due to the eased up policy, money growth pace was increased and the Central Bank Bills' (CBB) rate, which is the most frequently used instrument, has decreased.

Faster money growth and lower interest rates are facilitating financial intermediation with an increasing impact on the monetarization of the economy, which has not been seriously studied yet in the case of Mongolia. In other words, an opportunity to increase money supply without serious increases in the price level has been created and the financial service shortage has been significantly reduced due to an elimination of financial restriction (administrative pressure on the decision of an intermediary), which opens up more business opportunities for the intermediaries. Improvements in the banking law and other related regulations together with institutional strengthening of real estate collateral made valuable contribution to the successful expansion of financial services and the elimination of restriction. These achievements not only provided an opportunity to promote economic activities through monetary policy, but also created a favourable environment for the economy to use money.

Money supply has increased dramatically in the current year, reaching 470.1 billion togrogs, which is the highest growth since 1996. In terms of financing by the money growth, 54.7 percent of the increase in money supply over the year accounts for the net domestic asset and the remaining 40.1 percent to the net foreign asset. Thus, more than half of the money growth goes to the domestic economy. Regarding the composition of money growth, the majority of it has been provided by the domestic and foreign currency denominated savings. At the end of 2002, togrog savings were 147.2 billion and foreign currency savings were equivalent to 135.2 billion togrogs, which is together 60.1 percent of the money supply. 42.9 percent of the money supply growth represents an increase in togrog savings and 34.5 percent represents an increase in the foreign currency savings. The remaining 22.7 percent of the money growth was generated by the total increase in money outside banks and demand deposits, which are used as cash and non-cash payment instruments.

Figure 30. Money growth rate, CBB's interest rate, CBB's interest rate trend

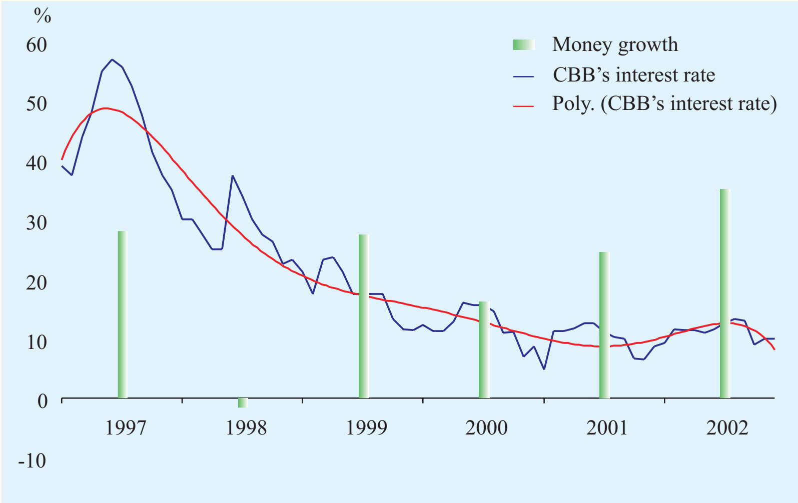


Figure 31. CPI group indexes, % (2000.12=100)

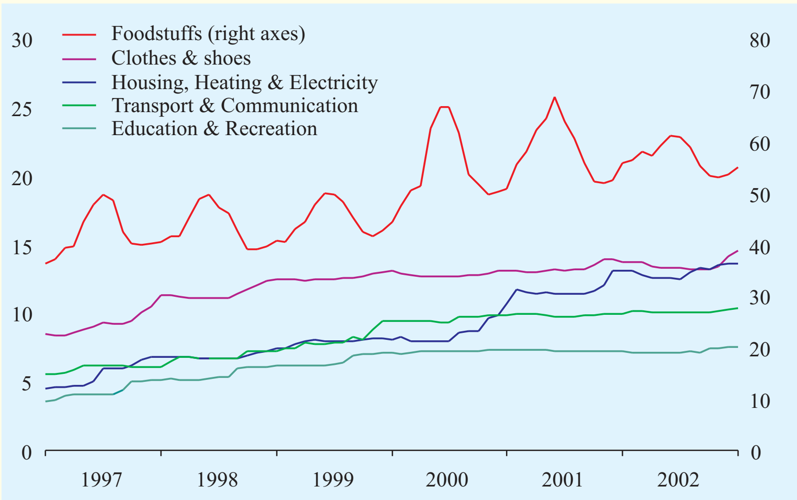
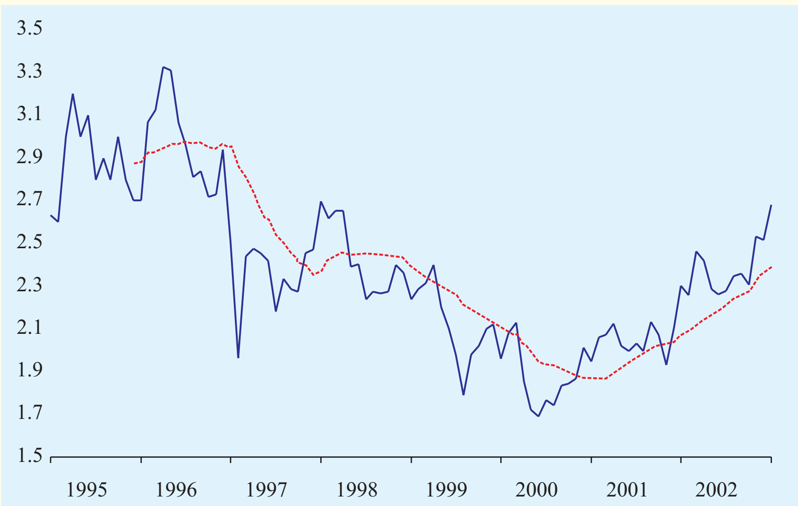


Figure 32. Money multiplier



The pattern of the changes in the monetary aggregates indicates that the public confidence in banking sector has improved and banks are using the increase in the deposit more towards financing domestic loans.

Outstanding domestic loans have risen by 96 billion togrogs in 2002 and more than 90 percent of this increase was represented by a growth of private sector loans. The market oriented economic regime has been strengthened and the private sector has become more active and creative; thus, the financial resources have started being allocated more towards this sector. On the other hand, the high amount of bank loans to the Government, which in consequence, used to decrease financial resources available for private sector investments, has declined and this creates more opportunity for the real sector to get financing. The share of non-performing loans in the total of outstanding loans fell by 0.8 points.

Weighted average loan rate of togrog loans fell by 8 points compared to the previous year. This reduction of the interest rate is a result of the deepened financial intermediation and an increase of healthy competition at the financial market, which is revealed by such activities as the introduction of new financial products and services.

Successful introduction of construction bond can be mentioned as an example of direct financing of the real sector through the capital market. Annual average rate of these construction bonds traded at the Mongolian Stock Exchange was 19.7 percent. This is a good beginning for channelling money as direct financing through the capital market and it also may contribute to the financial system stability given the enhanced capital market functioning. However, the capital market, the second principal form of financial intermediation, has been dysfunctional; and it might be resulting in the dominance of the banks and NBFIs, excessive concentration of financial services, and the high level of interest rates.

Inflation, the main indicator of monetary policy effectiveness, was 1.6 percent in 2002 and its monthly volatility has been much lower over the year 2002 than before. Monthly inflation volatility measured by variances of the CPI in 2002 was 4.5 times smaller compared to the previous year.

If we look at the changes of the CPI by its composition for the period between 1996 and 2002, we will find the following observations. The most volatile part of the CPI is the foodstuff price index. The lowest value of the food price index was observed in December 1996, which was 36.3 (gross CPI was 65.8) and highest was in May 2001 with the value of 68.7 (gross CPI of that date was 118.6). As a result of the seasonal price change of products with high weight in the basket as meat and milk products and vegetables, the foodstuff price index has shown seasonal fluctuations. During the period between 1997-

Box 9. Inflation and an econometric model of inflation

The single equation model below was estimated using OLS techniques for Mongolian monthly data from 1993-2000. The objective is to examine the impact of the money supply and exchange rate movements on prices. Afterwards, Granger causality tests are carried out to investigate whether the money growth rate "causes" the inflation rate in the Mongolian economy and visa versa.

To investigate the relationship between inflation, exchange rate movements and changes in money supply, the inflation regression function is specified and estimated as follows:

dCPI=a+b*dCPI(t-n)+c*dER(t-n)+d*dM(t-n)

dCPI(t-n) is the growth rate of CPI in month (t-n)

dER(t-n) is the lagged variable of the growth rate of Togrog's nominal depreciation in month (t-n)

dM(t-n) is the lagged variable of the growth rate of either M2 or M1 in month (t-n)

Mongolia is a small, open economy; the openness of its economy motivates the inclusion of the exchange rate movements of Mongolian Togrog against USD. An assumption here is that togrog's depreciation may increase the inflation rate, because the depreciation imports inflation from abroad.

The fact that econometric investigation along the lines suggested by the monetarists does not mean discriminate against the structuralist school. Instead, structuralist approach may have significant role to play in explaining the nature of inflation in transition-era Mongolia. For instance, meat price fluctuations were one of the major sources of the monthly changes in the CPI index.

The Augmented Dickey-Fuller (ADF) test has been applied to CPI, M2 and ER time series. The ADF test results show that the all three series are stationary; therefore, the Granger-Sims causality tests can be estimated.

After checking time series properties of variables, the above inflation model was estimated for both the monthly inflation and annualized inflation rates. However, the explanatory power of the regression expressed by the value of the R-squared appeared to be extremely low suggesting that very low percentage of the variations in the dependent variable were actually explained by the variations in the independent variables and all variables individually were statistically not different from zero. Also, Jarque-Bera normality test results indicate that in all cases residuals of the regression are not normally distributed, which can be interpreted a sign of deep structural changes affecting my variables.

Conclusions and suggestions

The OLS techniques in explaining the determinants of inflation in Mongolia should be used extremely carefully due to the structural instability of the concerned economic variables. Quite simply, the OLS estimation does little to explain any relationship between the CPI index, exchange rate movements and changes in money supply.

· The money supply appears to be an important contributor to the inflationary process only when adjusted lags of twelve months were used in the estimation.
· Lagged variables of the M2 growth failed to be significant in explaining its current values.
· Past inflationary values also failed to explain current inflationary situation.

Structuralist approach might be more applicable for analysis of inflationary effects of spring shortages of meat in Mongolia. Further empirical analysis of inflation in Mongolia may proceed along the lines of this school by constructing seasonality indexes of supply bottlenecks to have structural deficiency elements in inflation.

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

1999, seasonal fluctuations were relatively stable while they have been larger between 2000-2001.

Other groups of the CPI do not seem to represent seasonality in their fluctuations. Changes of the housing and electricity prices were relatively stable in 1997-2000, but they have been pretty volatile since then. This might have been caused by a one-time jump in those prices, which resulted in significant change in those group indices. The indices of the CPI groups such as clothing, foot wear, communication and transportation were increasing with an almost constant pace. However, those of household items, medicine, goods for cultural and educational uses, and other goods were virtually stable.

Although the Bank of Mongolia has introduced repo agreements, which is a more flexible monetary policy instrument, into the market from the middle of this year, CBB still remains as the main instrument. Banks held on average about 42.7 billion togrog CBB each month and traded 7.1 billion togrog CBB at the inter-bank market. The inter-bank market has been more active than before and average monthly trade on foreign currency spot conversions were reported to be 4.5 billion togrog.

The Central Bank Bills (CBB)

In 2002, the daily average of the CBB held by banks was 35.5 billion togrog, which is 1.5 times higher than the last 3-year average. The number of CBB's issued and sold in the market reached 61 thousand at the end of the year. Almost 85 percent of the total transactions of the CBB's were conducted with the banks such as Agricultural, Trade and Development, Anod, Golomt, and Savings bank.

The weighted average rate of the CBB at the end of 2002 was 9.97, and 25 bases points higher compared to the last 3-year average. The rate had an increasing trend during the first and fourth quarter, and has decreased in the second and third quarter of the year. The possible explanation for this type of pattern can be real sector's seasonal activity that expands during spring and summer due to beginning of the gold exploration, construction works, wool and cashmere trades, crop plantation, and preparation for the winter. Hence, this real expansion increases the demand for loanable funds and banks places less money in assets like CBB. The reverse occurs in autumn and winter and beginning from July, loan repayment increases and banks start limiting their loan grants; therefore, security sales increases and the weighted average rate decreases.

The following amendments have been made in the Regulation on the Central Bank Bills in the reporting year:

1. The auction of the CBB is executed based on the announcement of the discount rate, not the discount price.

Box 10. Relationship between inflation and money supply

Since 1992, year-on-year inflation has fallen considerably while the total money supply or M2 has a tendency of constantly growing over time. The contrasting developments in inflation and money supply have led to question whether there exists a stable relationship between inflation and money supply. On the other hand, structural changes within our economy might be affecting the relationship. Forecasting inflation is essential for the monetary policy because of the time lag of its economic effects.

Inflation is thought to be an outcome of various economic factors. These include supply side factors that come from cost-push or markup relationships; demand side factors that may cause demand-driven inflation; monetary factors and foreign factors.

Most studies are typically focused on only two-equation model of an economy with a goods market and a money market. At the goods market, the price level (P) is assumed to be a weighted average price of tradable (P_T) and non-tradable (P_{NT}) goods. The price of tradables (P_T) is determined by the exchange rate (E) and foreign prices (P*) while non-tradable prices (P_{NT}) are a markup over unit labor costs (W).

In the money market, real money supply (m^s -p) equals real money demand (m^d), which is assumed to be a function of the exchange rate (e), the level of real activity (y) and nominal interest rate (R).

All the variables appear to be integrated of order one process since ADF tests are not able to reject the null hypothesis of a unit root (p=1).

From the view of econometric approaches, there are two possible ways to do this kind of analysis: to use an ordinary least square method through transforming nonstationary time series into stationary time series by differencing or to use co-integration analysis with nonstationary time series. Con-integration analysis has an advantage of distinguishing between long & short-run relations and estimating effects of policy & external shocks. There might be not enough a degree of freedom to estimate co-integrated vectors among variables due to a short data availability in our case.

The restricted co-integration vectors that estimated by Eviews 4.0 are shown as follows:

(2') CPI^= 8.99E - 0.05t

(4') M2^= -0.19CPI +2.72E - 0.002R + 0.62Y

From the result of Johansen test, there are 4 possible long-run linear relationships among sampled variables in Mongolia. It is not enough to eliminate a serial correlation of the co-integration vectors' residuals because of the relatively short availability of data. So, it is not appropriate to use any result of this research in projections or calculations.

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

2. Unsold CBB after the auction shall not be sold at any later dates.
3. CBB that are prematurely redeemed shall not be resold in the market.

Before these changes were made, about 74.7 percent of the unsold CBB were at the open market.

80 percent of all issued CBB were sold at the market during the reporting year, which is 4 points lower than the 3-year average. Total of 3.9 billion togrogs were paid as interest payment on CBB by the Bank of Mongolia in 2002. It is higher than previous year by 1.1 billion togrogs or 37.1 percent.

The Repo Agreement

The Bank of Mongolia formally introduced repo agreement, the most flexible monetary policy instrument, in July 2002. 'The General Repurchasing Agreement' was signed by all the actors of the money market that allows to the Bank of Mongolia to adjust base money with extreme flexibility and offers banks an opportunity to manage their short-term funds with diversity or cover very short-term shortages cheaper.

The Bank of Mongolia made repo transaction four times with a value in total 16.5 billion togrog. It uses Government security and foreign asset as an underlining instrument. The Repo on CBB used actively in the inter-bank market among banks. For instance, banks concluded 23 repo contracts on 32.8 thousand CBB with face value of each one million togrog in the last two-month of 2002.

Required Reserves

In order to implement state monetary policy, coordinate money supply, ensure the liquidity of the banks, and to protect customer and deposit holders' rights, the Bank of Mongolia requires the banks to maintain certain fractions of deposits as required reserves and compliance of this requirement by each bank is monitored on a daily basis.

Procedure of computation and monitoring of reserve requirement, penalty in the circumstance of deficiency, remuneration of the reserve in the current account of banks with the BOM, is set and regulated by the Regulation approved by the Governor in 2001. Remuneration of the reserve in the current account of banks with the BOM has been stopped since April 1, 2002.

According to the Regulation of Defining and Supervising Required Reserves, the banks have executed the computation of the required reserve twice in each month, and penalties have been imposed on banks in the case of deficiency. In 2002, a total of 102.9 million togrog was paid as remuneration and penalty of 5.7 million togrogs was imposed on banks. The reserve of the banking system has complied with the requirement in every month of 2002. The daily average balance of the current account of banks with the BOM has been 28.7 billion togrogs instead of required 17.6 billion, which implies that the banks' daily excess reserve has been 11.1 billion togrogs on average.

The BOM establishes the minimum amount of the required reserve twice in each month, sends their first and last 15 days required reserve amount to the banks based on the above mentioned establishment, and ensures the bank's liquidity through its constant monitoring of the compliance of the required reserve. In other words, if a bank has a good liquidity position, it will be able to satisfy withdrawals of funds by depositors promptly. The required reserve ratio has been 14 percent in 2002.

During the reporting year, the banks have constantly recorded excess reserve of 9.0-14.6 billion togrogs in their current account with the BOM. As a result of the stabilization of banking sector activities of recent years, deposits at the banks have been continuously

Figure 33. Amount of CBB sold and purchased by banks' repo agreements (2002/11-12)

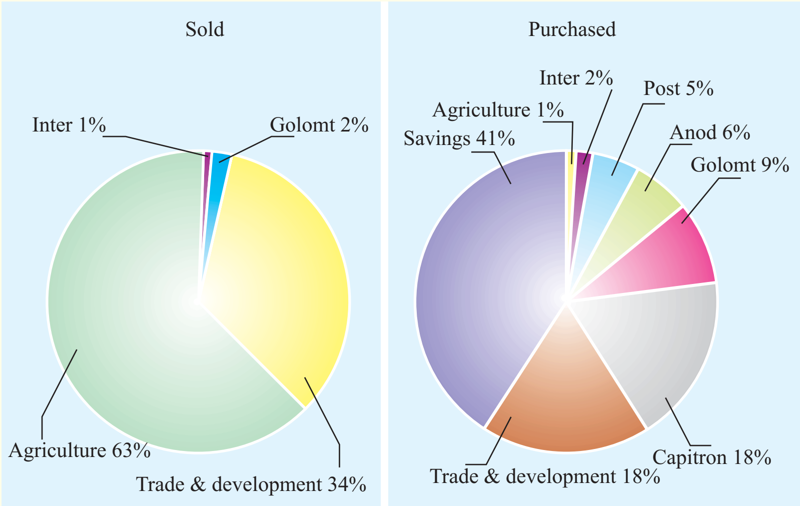


Figure 34. Reserve requirement

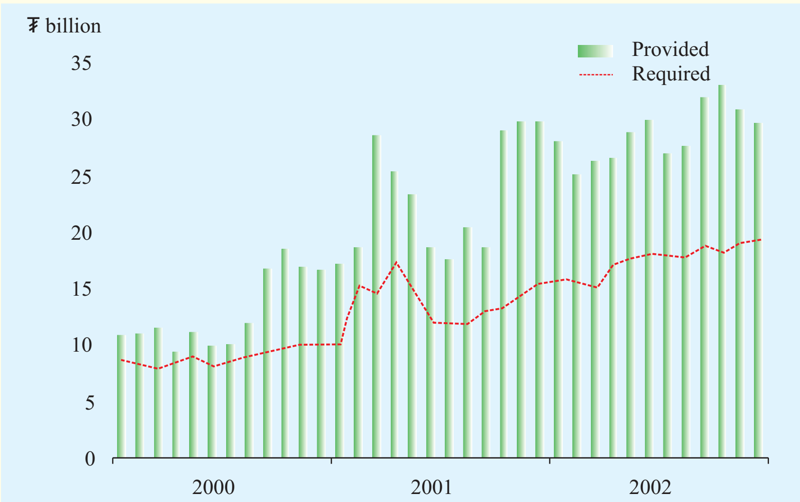
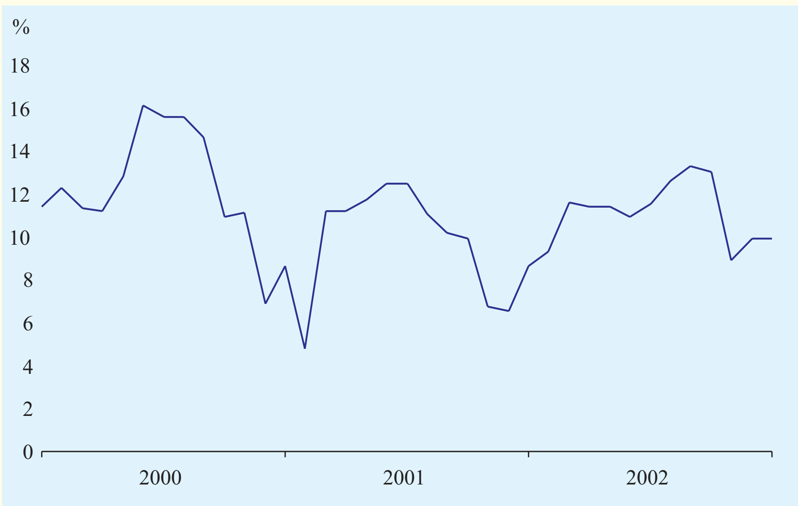


Figure 35. Weighted average interest rate of CBBill



rising, which in consequence, has caused the increase of the banks' excess reserves. This tendency was maintained throughout the year and monthly average excess reserve was 11.1 billion togrogs, which is 24 percent higher compared to the previous year.

Limits on the Non-bank Sector Credit

In order to prevent possible liquidity problems, payment delays, and excessive investments into risky assets, by the BOM Governor Resolution, a credit ceiling on a quarterly basis has been imposed on one bank, which has defied meeting the reserve requirement and other prudential ratios, and violated permissible banking activities. In the reporting period, the bank has maintained its credit portfolio below the ceiling.

On-Lending Activities

In 2002, the following two projects funded by the international financial institutions have been implemented and the BOM on-lent funds to participating banks.

1. Within the framework of the Export Oriented Small and Medium Sized Enterprises Credit and the Financial Sector Development Project of 10 million DEM, which is being implemented in accordance with the agreement between Mongolia and the government of Germany, a total of 4.8 billion togrogs has been on-lent to the above mentioned enterprises and sectors through the Trade and Development bank and the Mongol Post bank. In 2002, loan of 1.1 billion togrogs have been granted.

2. Implementation of the Agricultural Sector Development Programme, funded by the Asian Development Bank (ADB), has successfully started in 2002. Within the framework of the project, a total of 4.4 million USD aimed at developing the agricultural sector will be on-lent through the participating banks. The loan activity has been intensifying since the fourth quarter of 2002, and the BOM has issued a total of 1.2 billion togrogs loans to the Mongol Post bank and the Zoos banks in 2002.

In addition, the BOM has been implementing the Employment Generation Project jointly with the government, and in the reporting year, a total of 2.4 billion togrogs for micro loans has been granted to the participating banks, the Golomt, Zoos, Erel, and Transportation Development banks.

Net Claims on the Government

At the end of 2002, the banking system, including the BOM, claim on the government was 30.7 billion togrogs and its deposit was 63.2 billion; therefore, the net claim on the government was -32.4 billion togrogs, which is 25.6 billion lower than the last year.

In 2002, the BOM claim on the government (13.6 billion togrogs) from the beginning of the year has been fully repaid and the government deposit at the BOM has increased by

Box 11. Transmission mechanism of monetary policy

It is important to frame our understanding how monetary policy influences real economy in order to discuss about stability of monetary side of the economy or opportunity to support real sector through monetary policy, hence improve public's social welfare. In short, changes in the monetary policy instruments distort banks' reserve, inter-bank market rates, and exchange rate of the togrog. If these impacts were significant enough, then after certain length of period they changes money supply, interests on deposits and loans. Thus, these changes in money supply and interests together with exchange rate influence real economy, possibly growth.

Possibility of having an efficient impact on the real economy through monetary policy is conditional on what transmission mechanism dominates. When monetary policy relies on indirect instruments initial impacts goes to inter-bank market, a part of money market. Then, it depends on banks' quick and rational response to this impact, how and in what magnitude it changes real sector. If banks responses quick enough to the changes of the policy instruments and takes consistent decisions to maximize profit, then it transmits policy actions in short time frame and it shall be efficient. So, we could state that quick and efficient policy impact to the real sector as it was anticipated by policymakers through monetary policy, is depends upon two vital conditions that is banks response, its form of decision taking and availability of the business opportunity to take desirable actions by banks.

Thus, monetary policy implementation using market friendly, indirect instruments, shall depend upon other non controllable circumstances including banks management ability to take correct decision and its speed, institutional arrangement of the money market and bank customer's business opportunity to act optimally in changing environment. These, in turn, serve as important arguments why the BOM always focused on reliability and credibility of the institutions engaged in financial intermediation. Aim for monetary policy from such involvement might include elimination of distortions in financial intermediation, gain in efficiency and its cost managements that provides smooth transmission channel.

So, monetary policy transmissions presented to you as through interest or through money in the following.

Interest rate transmission

The CCB or Repo changes inter-bank interest rate or it removes pressure that should change it in otherwise. This change in interest may change asset earning and induces change in composition of asset. Once banks asset composition changed, it influences to change commercial loan rates throughout economy and other rates, and exchange rate. Exchange rate, for instance, may change trade opportunity further. In theory, if economic relations of the monetary side are stable, thus responses of the intermediaries are predictable and optimal, therefore shock-response chain follows same pattern always, public can anticipate outcome of the policy change and may react at the beginning of the shock as conditional on interest of the money market. However, this pattern may only be observed in a country where financial sector are well developed and economic stability is granted. Therefore we can say that interest rate channel requires highly developed financial market, and depend upon quick response and sensitive intermediary.

In the case of Mongolia, we have discovered that changes in the CBB rate transmits to the loan rate, but its magnitude was ludicrously small[1].

In addition to this you can see that not only its impact is very small but also its influence is not stable. In other words CBB does not provide a signal, which may affect banks to change their asset composition. Hence banks are not responding to the interest changes and it is clear at this stage that interest transmission end here. As an explanation, we employ arguments such as under-development of money market, institutionally, that supports interest transmission, inter-bank transactions not achieved to the level that reflects changes in the CBB, even if it achieved there are not enough observations to obtain stable relations empirically.

Generally, interest rate transmission itself requires stability of the key financial markets, their institutional arrangement, level of sophistication and its empiric estimation is very much model dependant. So, taking in account of arguments developed here, the BOM's opportunity to use interest rate channel for policy consideration is limited.

Money transmission

The BOM can increase money supply that increases banks lending ability or Governments payment capacity and these in turn leads to the increase in aggregate demand, which may support positive real shock. As assume this accommodative action can be sustained only at some certain period, after which more nominal impacts on the prices and wage could be dominated. This is the common consensus among academics and practical policymakers. Hence, the use monetary policy to support real economic growth or maintain sustainable high economic growth in the long-term disappears and its aim is only in short-term. In other hand, it is clear that price increase reduces social welfare and prevent from price being increased through money supply is the key concern of any central banks. Let's look more in deep on money transmission mechanism.

Box 11. Transmission mechanism of monetary policy (continue)

Money supply increases with an aggressive monetary policy that is with the increase of the credit to banks or Government from the BOM, or due to the net buy of foreign asset from banks of Government. The BOM also buys a gold keeping its historic tradition from one bank system, which play big role in injecting money from central bank. The dollarizaton is one additional specific of the Mongolian case. As an implication of it, for instance, if private business borrows from abroad in foreign currency, it can use this in payment in foreign currency form, because, if currency is USD for example, it will be broadly accepted. Thus, the part of money supply, foreign currency deposit increases without the BOM involvement. This is an example of BOM that cannot control money supply completely, but if the BOM is buying foreign currency from market actively the autonomous increase will be togrog supply growth. The statistics show that the BOM injects money mainly due to gold purchase and foreign currency purchase.

When the BOM creates money at first, it increases reserve money; and this induces further increase in the money supply some time later. The amount how big this increase of money supply would be depends on the money multiplier. In this country money multiplier represents instability in their behavior, and it is challenging at this stage to explain this variability fully. The multiplier changes together with payment settlement practice and money demand or other monetary changes. When interdependencies of monetary variables are unstable due to structural changes in real sector, legal changes and other reasons that can be identified as external to the financial sector, then it will be restricted to investigate multiplier both analytically and empirically. Example of such external changes could be an elimination of the financial repression of the intermediation or successes of the bank restructuring policy to deal with banking crises.

Money supply, then, after certain time, can cause boost in economic activity or price. There are no finalized study results for Mongolia yet. In the research work[2] of the BOM author seeks answer to the question: “Is there stable relations that money cause inflation?” The answer is there is no satisfactory evidence to prove it. An empirical work may be restricted by the existence of high pace structural changes of economy, lack in deepening and level of sophistication of the financial market, banking crises, and may be quality of statistical data. Thus the study of the money on the economy can delayed again because of availability of the time series later.

Another channel of transmission for monetary policy frequently appears in the academic reading is the exchange rate channel. However we know very limited about this channel of transmitting monetary policy. We prefer if exchange rate varies around stable mean in the long-term and then it helps us to fight with dollarization. But in the short-run if exchange rate is not fluctuating or virtually flat it may cause trade balance worsen, distracts competitiveness and generate exchange rate risk exposure for the bank or its customers. Some still blame a policy of the almost fixed exchange rate for Asian crises that deteriorated competitiveness.

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

11.3 billion togrogs from the previous year; and these have caused the net claim on the government to decline.

The BOM claims on the Government and its repayment

In 2002, the BOM claims on the government (13.6 billion togrogs) from the previous year have been fully repaid. A payment of 5.3 billion togrogs was made from the annual profit of the year 2001, 7.4 billion togrogs was from the BOM’s revaluation fund in accordance to the BOM Governor Resolution 632 of the year 2002, and the remaining 800 million togrogs was by the interest payment of the BOM.

The BOM claims on the government consist of the Bank Restructuring Bond (Bank restructuring bond issued upon the liquidation of the Ard and Daatgal banks and bonds issued for replacing directed and inherited loans of the Agricultural bank and ITI bank) and the government bond bought by the BOM from the Agricultural bank.

The Bank of Mongolia issued a guarantee on the government's Promissory note with total value of 1.7 million USD, which was given to the De La Rue International of the UK to finance the purchase and installation of computer system and software to be used in printing identification cards and in 2002, the Ministry of Finance and Economics have fully repaid 435.2 thousand USD, the outstanding balance of the past due claims.

Government deposit

Government deposit at the end of the year 2002 was 63.2 billion togrogs, with an increase of 10.3 billion togrogs or 19.5 percent from the previous year. In terms of its composition, 95.4 percent (60.3 billion togrogs) of the total deposit is general budget account, 4 percent (2.5 billion togrogs) is municipal budget account, and 0.7 percent (300 million togrogs) is an asset outside the budget accounts of the state government institutions. Furthermore, deposits of 33.5 billion togrogs or 53 percent of the total deposits is held at the BOM, and the remaining 29.7 billion togrogs or 47 percent is held at the commercial banks.

The compositional breakdown of the state budget assets reveals that 36.5 percent is social security and pension fund, 25.4 percent is togrog denominated state budget current account, 29.5 percent is togrog denominated current account of the state government institutions. In the case of municipal budget assets, 51.5 percent is togrog denominated municipal budget current account and 46.1 percent is togrog denominated current account of the municipal government institutions. In terms of composition of Government deposits, social security and pension fund is 36.5 percent; current account deposit in togrog is 25.4 percent and togrog deposit of the budgeted organizations about 30 percent. Main component of the local government deposit is the current account in togrog (51.5 percent) and the remaining is togrog account of local budgeted organizations (46.1 percent).

5.2. Foreign exchange policy and reserve managment

In the reporting year, the Bank of Mongolia gave more emphasis on the appropriate and safe allocation of the foreign reserves, growth facilitation, retaining short term borrowing outflows and imports at the suitable level.

Foreign Exchange Reserve management

At the end of 2002, net official foreign exchange reserves reached 225.9 million USD, which is 41.2 percent higher compared to the previous year. The net official foreign exchange reserves were equal to 15.6 weeks' import coverage; therefore, fully satisfying the target (13 weeks) as stated in the Main Guideline of the State Monetary Policy.

Main resources of the foreign exchange revenues were monetary gold, foreign currencies purchased from the domestic banks, and foreign loans.

In the reporting year, The State Treasury purchased gold with net weight of 10.6 tons from 124 domestic gold mining enterprises, 11.2 tons of gold was refined abroad through a total of 13 shipments, and that has created 49 percent of the foreign exchange reserves.

Although the world market interest rate has been low throughout the year due to the continuing recession of the world economy, through efficient allocation of the foreign exchange reserves and investments in new financial instruments with high return, higher returns than world interest rates have been achieved. In the reporting year, the return on some investments, for instance, on securities has reached up to 14 percent.

At the end of the year, time deposits with a maturity of 1-6 months and securities were placed at 21 foreign banks and financial institutions, and accumulated interest on deposits amounted to 3.2 million USD and interest income on securities was 2.5 million USD.

In spite of high volatility in the world market gold price and the exchange rates of the predominant foreign currencies, net profit of 5.5 million USD from gold trading and 2.6 million USD from foreign currency exchange trading was earned through continuous market observations and analysis, proper forecasts of market trends, and an effective usage of financial derivatives. In addition, in order to support domestic gold mining enterprises, gold has been traded with forward and options contracts based on their request.

As for the reserve management, the General Agreement and other agreements on coordinating trades in derivatives have been made with 6 foreign correspondent banks for the purpose of increasing the number of foreign partners and reducing risks from the counter parties.

Exchange rate policy

In the reporting year, the Bank of Mongolia has conducted exchange rate policy aimed at creating a favorable business environment and maintaining stable togrog exchange rate against foreign currencies.

At the end of 2002, an average inter-bank market exchange rate of togrog against USD reached 1125 togrog, which shows a depreciation of 2 percent from the previous year; thus, it fully satisfied the target of 3 percent stated in the Main Guideline of the State Monetary Policy. The seasonal fluctuation of the exchange rate of togrog against USD has decreased during the reporting year, and it has been relatively stable throughout the year. In the second half of the year, the Bank of Mongolia has started announcing currency

Table 19. Six month London interbank offered rate (LIBOR, percent)

	1999	2000	2001	2002
On U.S. dollar deposits	5.5	6.6	3.7	1.9
On euro deposits	3	4.6	4.1	3.4
On Japanese yen deposits	0.2	0.3	0.2	0.1
On British pound deposits	5.6	6.3	5	4.2
On Swiss franc deposits	1.5	3.3	2.9	1.2

trading rates in addition to the inter-bank market exchange rates, and has shortened the period between the announcements to reflect fluctuations at the market rates.

In order to determine the exchange rate in accordance with market supply and demand, and to support inter-bank market activities, the Bank of Mongolia has started announcing currency trading rates from June 24, 2002. The margin between bid and ask rates was established to be equal plus and minus 1 togrog from the inter-bank market average rate (Midpoint rate), which is announced by the Bank of Mongolia.

In 2002, total turnover of the foreign exchange trading with domestic banks has decreased by 43.1 percent compared to the previous year and net amount of bought and sold foreign currency has declined by 30.7 million USD.

The domestic supply and demand for foreign currencies have been relatively stable during the reporting year, and percentage share of the foreign currency bought by the Bank of Mongolia in the total foreign currency exchange was 22 percent, and that of the foreign currency sold by the Bank of Mongolia was 7 percent.

5.3. Supervision of banks and financial institutions

With recent expansion of financial operations and introduction of technologically new products to the banking services, new forms of potential risks were created. As a regulatory authority, BOM has focused its supervision of financial institutions more on risk evaluation and assessment of risk management system. Within the framework of this task, the guidelines, regulations and other legislative documents governing banks activity are being upgraded in compliance with international standards and techniques, particularly with those applied by Basel Committee on Banking Supervision.

In accordance with the Law on Central Bank and other relevant laws, the Bank of Mongolia has worked towards ensuring the stability of the financial sector, enhancing the public confidence in the banking sector, and protecting the rights of the depositors. As the financial sector stabilizes and develops, the need for improving guidelines, regulations, and legistlation increases; as a result, more emphasis have been placed on drawing up regulations and guidelines complied with the international standard (standards established by the Basel Committee on Banking Supervision). The Bank of Mongolia introduced several

Table 20. Foreign currency exchange (excluding government)

In millions of dollar

	2001	2002	Changes	
			amount	percent
Purchased	67.9	29.6	-38.3	-56.4
Sold	181.3	112.3	-69.1	-38.1
Banks	156.0	97.2	-58.8	-37.7
Mining company	25.3	15.1	-10.2	-40.5
Total turnover	249.2	141.9	-107.4	-43.1
Net	-113.4	-82.7		

regulations and guidelines on interconnections between supervisory functions, internal and external audit, anti-money laundering measures, principles of the corporate governance in the banking industry, and general guidelines for long and short term lending activities.

Capital Adequacy

Risk-weighted capital adequacy ratio of the banking system as of the end 2002 was 20 percent; and although this is 4.6 points lower compared to the previous year, this is 10 points higher than the required minimum level set up by the BOM.

The decrease of the capital adequacy ratio of the banks have been mostly caused by the fact that banks tend to allocate their resources in assets with higher risks such as loans and deposits at the domestic and foreign banks. During recent years, the commercial banks have been changing their past trend of concentrating more on lending to just a few credible borrowers and on investing into low risk assets such as Central bank bills and Government bonds; and instead, they have started allocating their resources in assets with higher return in order to attract customers, and consequently, to strengthen their market share.

In the reporting year, all banks have complied with the minimum capital ratio requirement. Although some banks managed to keep the capital ratio very stable, the trend of dropping of the capital adequacy of major banks is observed. Within the limitation imposed by the relevant legislative documents, banks maintained the capital adequacy ratio at a relatively low and stable level and that reveals the banks' policy of investing in risky, high interest earning assets.

Liquidity

The Bank of Mongolia monitors liquidity positions of banks by evaluating their satisfaction of the reserve requirement and regulated prudential liquidity ratio. Although during the last two years the banks' deposits have increased tremendously from preceding years, the required liquidity ratio remained at a stable high level. The required liquidity ratio of

Figure 36. Net international reserves

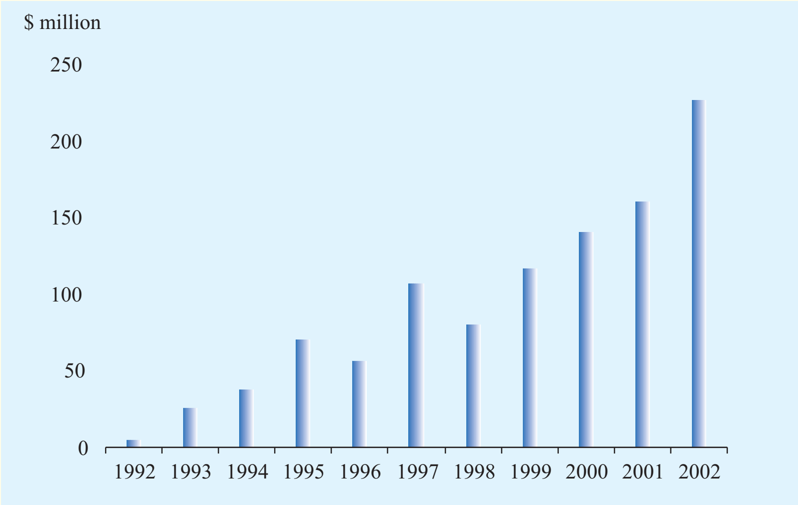


Figure 37. Togrog rate against US dollar

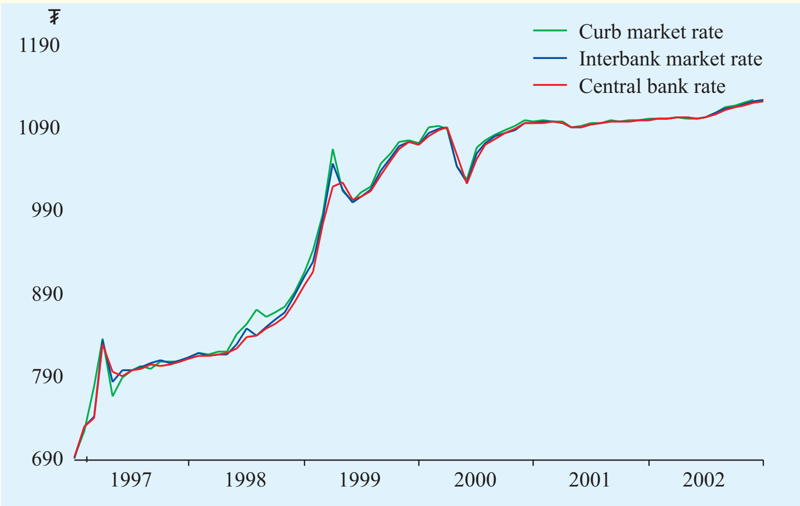
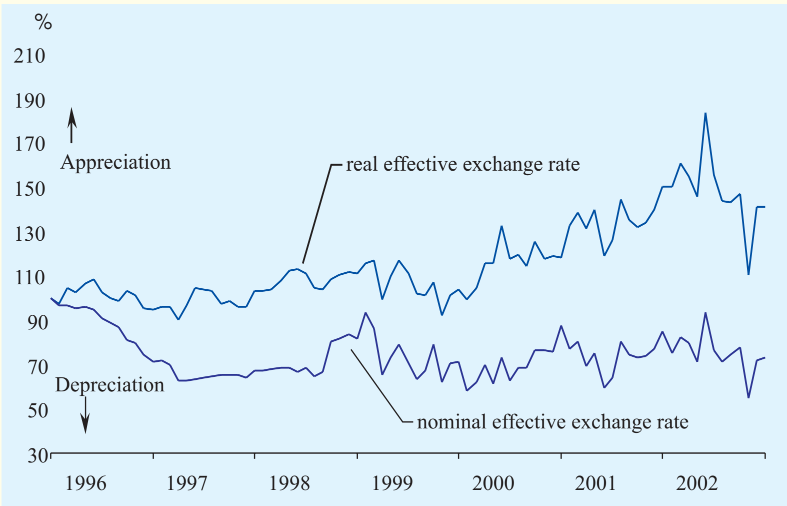


Figure 38. Real and nominal effective exchange rate



45.6 percent, which is down by 2.6 percentage points from the previous year, (30.5 percentage points higher than required level set by Mongolbank) is related to their allocation of considerable amount of the resources into low risk, liquid assets, such as cash, current account and deposits with Mongolbank and other commercial banks. The limited opportunities to diversify asset into high-return financial instruments still prevail for banks due to the current developing stage of the financial markets in Mongolia and, the deficiency of practical knowledge and skills of the banking staff as well.

Lending and Loan Portfolio Quality

In 2002, outstanding loans have grown at the most rapid pace compared to the other asset items and have increased by 71.3 percent, reaching 231.4 billion togrogs. In 2002, the ratio of non-performing loans (NPLs) to total loans was 7.2 percent, which shows a decrease of 0.8 points from the last year; however the reported stock of NPLs increased by 5.7 billion togrogs or by 52.3 percent, reaching 16.6 billion togrogs during the same period. Rapid credit expansion has been due to an improvement in loan repayment, enhanced financial intermediation, and increased amount if we compute the lending rate by performing loans. If we compute lending rate by cash flow analysis, it was 27.1 percent in the reporting year, which is lower by 6.3 points from the bank announced weighted average (togrog) rate, and by 14.3 points from the previous year.

Although the share of NPLs in total loans has decreased, continuing growth in absolute size of NPLs, as well as increased share of total loans in the banking system assets, are potential causes of concern. In this situation, banks should strengthen credit administration, enhance qualitative analyses of a particular borrower and the relevant economic sector as a whole, and be more strict on risk evaluation. The Civil Code's article regarding the loan collateral creates misinterpretations among legal professionals. Thus, either additional clarifying amendments to the Civil Code or special clause by the Supreme Court is urgently needed. On the other hand, relatively rapid credit expansion of banks compared to the growth of deposit liabilities evidences the deepening of the financial intermediation of the banking sector.

The Bank of Mongolia has continued its efforts to enhance the credit information system. With the technical assistance of the World Bank relevant software packages and the technical facilities of the Credit Information Bureau have been upgraded. Credit Information Bureau has signed special cooperation contracts with Mongolian Stock Exchange, Mongolian Asset Recovery Agency, Customs Authority, Taxation Authority, and intensive information sharing has been launched.

Market Risks

During the period of banking crisis, banks' difficulties were caused by the economic recession and inadequate management skills. Nowadays market risks are associated with changes in pricing of various financial products, management skills, professional knowledge of the banking staff and other factors. Potential losses may occur in cases where new financial instruments and products would be introduced without prior adequate preparations and proper controlling system. As competition increased, the prices of financial products became the main tools for banks in attracting potential customers; thus increasing exchange and interest rate risks. Although the total assets of the banking system have increased, return on assets declined as result of the smaller margin of the rates offered on assets and liabilities, and in 2002, return on equity was 22.9 percent or declined by 8.0 points compared to the previous year.

Market risks of the financial instruments are usually computed based on the financial product price. However, in our case, most prices, except foreign exchange rates, are distorted. As well, current software deficiencies of some banks restrain data processing, thereby limiting opportunities for proper market risk evaluation and assessment as implied by the best international practices. Although banks are allowed to apply more sophisticated models to manage foreign exchange risk when they satisfy the standards set by international financial organizations, the models are not in use yet, which implies that the banks are still in a preparatory stage.

The Bank of Mongolia still continues to impose limits on net open positions, in order to maintain bank foreign exchange risks at the lowest possible level. During the reporting year, the togrog exchange rate against USD was quite stable and because of foreign exchange open positions, most banks did not suffer loss from foreign exchange rate fluctuations. The drop of aggregated foreign exchange exposure of the banking system from 12.4 percent of the previous year to 8.9 percent in the reporting year was caused by an increase in the banks' capital base.

Bank Privatization

As stipulated in the Main Guideline of the State Monetary Policy, the banking sector restructuring process has been continued. Major banks with state ownership were prepared for privatization by enhancing their activities, improving management skills and internal structure. In the reporting year, the privatization of Trade & Development Bank and Agricultural Bank was organized and the biggest ownership change was the privatization sale of 76 percent of the Trade & Development Bank to the joint consortium of "Bank Commerciale Lugano" and "Gerald Metals".

The profitability of the Agricultural bank has improved and it has widened its operation scope, especially, by opening new branches in rural areas and introducing new financial services. Currently the State Property Committee of Mongolia is handling the privatization process of Agricultural Bank.

Supervision Framework

Bank of Mongolia has paid greater attention to upgrading its supervisory function in line with international standards, introducing risk-based approaches for monitoring banks' new products and services, and applying more flexible guidelines, manuals, and regulations adopted by the banks and NBFIs. For this purpose, the Bank of Mongolia has prepared a Model Charter for banks, Sample Consolidated Control guidelines and Sample Internet Banking Payment and Settlement guidelines.

The new supervisory approach, which has been introduced in recent years in compliance with international standards, has started showing positive results. In November 2002, the International Monetary Fund evaluated the Bank of Mongolia's performance of 25 core principles of supervision issued by the Basel Committee on Bank Supervision as satisfactory compared to other developing countries.

Innovations were made in eliminating the overlapping of some provisions in certain guidelines and regulations, expanding the opportunity to execute activities stipulated in the Banking Law, easing the controlling system through unifying the licensing procedures for conducting various banking services. The main change in the regulation was the invalidation of the guidelines on "Foreign Exchange Operations Licensing", and instead, all relevant changes and amendments in this regards were incorporated into guidelines on "Licensing Banking Institution and Its Branches"; therefore, these guidelines have allowed banks to handle ordinary foreign exchange operations sincetheir adoption.

In order to diminish the main risks of banks, such as credit and interest rate risk, the guidelines on "Asset Classification and Provisioning" were revised and amended in accordance with the IMF recommendations. Provisioning requirements for past due loans were increased, short term government bonds were exempted from provisioning, and supervisors were provided with a right to request additional provisions for particular loans as needed.

With the purpose of maintaining current financial stability and liquidity of the banking system and avoiding possible risks, new recommendations on "Anti-money laundering and related issues" were issued for banks consistent with the "International Standards on Anti-Money Laundering" of the International Anti-Money Laundering Committee. The Bank of Mongolia will further continue to detect and eliminate all possible ways of money laundering, which erode the social environment of the society and are an obstacle to the financial system.

The sound and healthy development of the banking system depends a lot on the implementation of corporate governance principles. The Bank of Mongolia prepared and issued guidelines on best practices in corporate governance in banking institutions in

Figure 39. Liquidity ratio

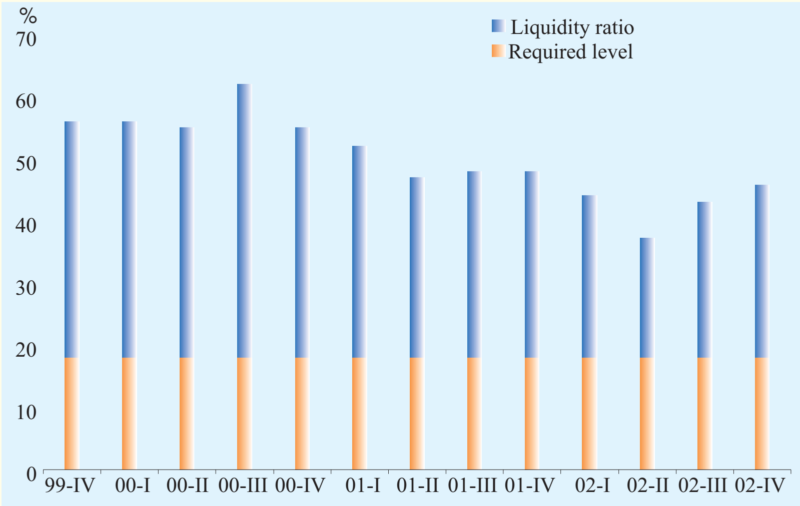
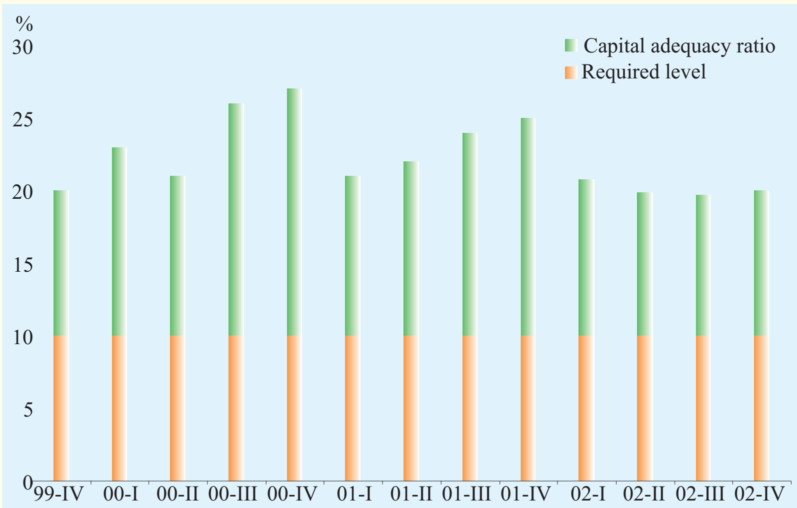


Figure 40. Capital adequacy ratio



Mongolia, including measures to strengthen internal control mechanisms, based on international practices, such as guidelines issued by the Bank of International Settlements and other financial organizations.

On-site Banking Supervision

In the reporting year, full-scaled examinations have been conducted at all 16 commercial banks and 4 NBFIs, targeted examination at 3 banks and revision of paid –in capital in all NBFIs. The outcomes of the examinations were discussed in details at the BOM Board Meeting and subsequent corrective measures have been implemented.

On-site examinations of bank activity have concentrated on evaluating bank liquidity position, asset quality, fulfillment of prudentional ratios, and on provisioning and profitability analysis. More close supervision of accounting procedure is required as a result of the deficiency of practical aspects of accounting, inadequacy of some auditing firms, and non-systematization of established banks' activites.

In the reporting year, the main emphasis of bank supervision has been placed on evaluating banks' overall risk evaluation and management, and on implementation of the internal control system and optimal management principles.

The Bank of Mongolia has completed a new Supervision Handbook based on careful study of the international best practices. The Supervision Handbook contains detailed procedures that BOM inspectors will use to complement and expand the scope of on-site supervision. Besides the BOM inspectors, the Supervision Handbook is useful for internal auditors of the banks, as well as for teachers and students of universities.

Off-site supervision

The Bank of Mongolia has conducted off-site supervision of banks to evaluate their liquidity position based on monthly balance sheets, other reports, and ratios of profitability and asset quality, and necessary prompt corrective actions have been imposed for problem banks. As a result, the fundamentals for early supervisory intervention have been refined to prevent further deterioration in the financial conditions of banks, thereby ensuring secure and stable operations of the banking system.

In 2002, constant analysis and verifications have been made on the monthly and quarterly balance sheet and other reports of the 16 commercial banks and 66 NBFIs and their satisfaction of the prudential ratios. Main conclusions were reported to the respective departments and divisions of the BOM and corrective measures have been implemented as needed.

Box 12. Survey of the bank borrowers

This is the first survey taken from the banks' borrowers with the format of questionarre and we have tried to assess the current situation of banking system lending, what percentage of banks' assets goes to which business sector, and its trend, and on the basis of all those parameters tried to evaluate what should be concerned about implementation of future monetary policy. We have divided 25 questions that have been included in the survey into 6 sections by their contents, and have summarized each section.

The reason that most of the borrowers are currently engaged in trade and service business (63.6%; 17.7% is in service, 45.9% is in trade) might be related to current loan availability, maturity, and terms. Only trade businesses can create source to repay the loans in today's situation with high interest, short maturity, and inflexible loan terms. Although borrowers of industry, manufacturing, and mining sectors currently come in the second place, if ranked by future prospects for invesment by the future investment trend, manufacturing comes first, and percentage of trade and service sector is likely to go down. Changes in loan interest rate level, and maturity would play important role for loan source to move more loans from trade to industrial sector. The followings are conclusions that can be derived from the survey.

· As for attractive businesses, borrowers are more interested in gold and cashmere.
· Because of monopolistic power of a few big banks, supply of loan seem to fall short of the demand for loan. Therefore, interest rate level is not sufficiently decreasing (see answer part of second section). Although loan demand is lower in the aimags than in the city, there is still insufficiency of supply of loan, especially in rural areas.
· Although financial intermediation in rural aimags is significantly recovering compared to 1996-1999 crisis, demand for micro loans is still present. Especially, as for the country with small market like ours, there is need to develop small and medium sized businesses with support of banks.
· In addition, answer "loan needs are not satisfied" mostly came from the urban small and medium borrowers, and it might be because they are not always able to get loan that is matching with their high demand.
· Survey result shows that one obvious seasonality of Mongolian lending is fading away.
· Borrowers defined interest rate and maturity or factors that are purely related to bank as being the major difficulties that they face when repaying the loans, and it is possible that high interest rate itself might create default risk.
· Borrowers named tax burden as third main difficulty of loan repayment. Also, during time of high tax rate, borrowers are getting loan to do small trade businesses instead of doing business in industrial sectors, and it tend to affect the economy in negative ways.
· Business people make up their capital shortage by bank loans most of the times. But it is interesting that loan between individuals comes as second major source after bank loans. Therefore, it shows that, as for NBFI, they still have enough room to provide their services in micro loan market.
· From the survey, there might be some discrimination against borrowers based on their loan amount.
· Loan rollover is one of the features of Mongolian loan making.
· Borrowers have interests in making up their source shortage by issuing bonds or stocks from securities market.
· As a result of effective monetary policy, inflation has been stable around 8 percent lately, and tends to go further down, so commercial banks must reconsider their level of loan interest rate.

Because of short maturity of loan, majority of borrowers are usually getting loans to do a trade and service businesses with fast turnovers. However, the borrowers who are doing business in industrial sector or who would like to do this type of business have less chance to get loan for this specific purpose, and even if they get loans, they are taking very high risks.

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

The compliance of the banks' quarterly (annual) reports with the audited financial statements and reports, as well as publicly disclosed monthly financial statements have been regularly verified in order to encourage fair competition, facilitate control over banking activity by the shareholders and customers, and to provide information openness for proper selection of banks.

5.4. Accounting and information technology

Accounting

In order to make current accounting rules in line with the Generally Accepted Accounting Principles, the following changes have been made:

- The old practice of recording monetary metals, registered either as an asset or liability, at constant prices has been changed. Instead, the outstanding balance of the monetary metal accounts is now converted to ounces, and when the BOM announces exchange rate changes, reevaluation is made on all asset and liability accounts of the balance sheet; and the evaluation difference will be recorded in the income and expense accounts. The Research unit and the IT division of the Accounting and IT Technology Department are jointly preparing the implementation of this project.

- Off-balance recording of the financial derivatives has been changed to on-balance recording. According to the accounting standard, if the contracts of foreign currency exchange are made with foreign banks, financial institutions, and others, a future obligation is created. Therefore, every contract is to be recorded either as receivables and payables on the balance sheet, evaluation of derivatives shall be made at the fair value on weekly basis, and the exchange rate difference shall be recorded as either income or expense.

- Besides changing the off-balance recording, module of the off-balance account recording has been updated fully. As a result of the update, it is possible to achieve system consolidation of the off-balance reports, to evaluate all off-balance recorded assets at the market price, and to obtain all types of off-balance reports and account plans in both Mongolian and English.

Inter-bank settlements

An important indicator of economic growth is GDP turnover, which is the ratio of total settlement amount through the BOM to the GDP. In other words, the GDP turnover reveals how fast the total money of the real economy is transferred between banks in non-cash forms.

If we consider the total amount of inter-bank settlements of the last three years, this figure has increased by 52.9 percent in 2001 from the previous year, and by 37 percent in 2002. The total amount of transactions performed through inter-banks settlements has been growing over the time; and the sharp increase that occurred during 2002 can be explained by the start of the State General Fund activities, which is one of the main reforms in the banking and financial sector.

The GDP turnover was 1.07 in 2000, 1.53 in 2001, and 1.94 in 2002 and that indicates the restoration of the public confidence in the banking sector and an increased amount of settlements through banks.

In order to tighten security of the inter-bank transactions, a regulation on inter-bank network usage has been approved. According to the new regulation, users of the inter-bank settlement shall be furnished with a working environment in compliance with the BOM requirement, and the users who will be networked should follow security proceedings approved by the Bank of Mongolia.

Information Technology

An introduction of the modern technologies by the Mongolian commercial banks requires dramatic improvement in the current standards of network security. Therefore, the "Regulation on the Bank of Mongolia's computer network and IT security" has been approved. This regulation will also serve as reference point for commercial banks and NBFIs.

Also, regulation on IT operations under special circumstances has been adopted, and detailed working plan has been introduced.

The Bank of Mongolia has been successfully implementing a commercial bank software project funded by the Asian Development Bank, and within this project the Trade and Development bank, Agricultural bank, Erel bank, Mongol Post Bank have been introduced to full-fledged modern bank software.

Furthermore, the Agricultural bank has successfully applied an online regime into its activities by connecting its head office with 30 rural branches through VSAT satellite. Erel bank has also started working on an online regime with its branch in Darkhan, and Golomt bank with its settlement unit 6.

In 2002, the banks have introduced new financial products with advanced modern technology such as internet banking and telephone banking. Banks have started offering in 2002 internet and phone banking. The Golomt bank has issued an internationally usable VISA card, and the Zoos bank issued Master Card.

In 2002, the Bank of Mongolia in cooperation with the Ministry of Finance and Economy, has successfully experimented with the "Zero" balance concept and a centralized settlement system in the State General Fund activities, and has introduced the latter.

5.5. Other activities

Management and Organization

Some changes in the department structures and organizations have been made in accordance to the Article 2.7. of the Main Guideline for the State Monetary Policy, which says, "Within the scope of strengthening independence of the Central bank and making its activity more transparent to the public, will improve the system of drawing up of the state monetary policy."

At the end of the reporting year, the Bank of Mongolia was employing total of 302 employees in 6 departments, 9 divisions, 1 special unit, 7 units, 19 provincial branches and 1 representative office. Of the 302 employees, 208 were working at head office.

By education level, there are 2 employees with Ph.D. in Economics (1 from a Mongolian university, 1 from foreign university), and 30 employees with master's degree, who have received them from universities in USA, Great Britain, Japan, Australia and Mongolia.

The human resource policy of the Bank of Mongolia is aimed at enhancing and improving the professional skills, providing staff with educational opportunities, and furnishing employees with social guarantee such as providing them housing, transportation facilities, health care and cultural and public activities.

By age group, 49 percent of the total employees are between 21-35, 29 percent are 36-45, 17.3 percent are 46-55, and 9.1 percent are 55 and up. We have been improving professional skills of the employees by providing with an opportunity of systematic participation in a domestically and internationally organized variety of seminars and trainings.

Internal audit

In order to match the quality of the Central Bank's internal auditing to international auditing standard, the "Regulation on Internal Auditing of Bank of Mongolia" has been newly developed for the purpose of detecting existing and possible risks, and reducing and eliminating the risks by computing, evaluating, controlling, and managing.

Activity in this area was oriented to determine the criteria of professional qualifications of the internal auditors, to plan each audit, to establish the activity scope, and to provide an environment to perform a risk based audit with certain inclusion of auditing method, form, and reporting conditions.

In accordance with the recommendations of the International Monetary Fund on development of internal audit activity, the Long term internal auditing program (2002-2006) has been developed in compliance with the international auditing standards through a risk evaluation, and the auditing is performed in two directions, that is, supervising the activity of the unit and on-site supervision.

According to the "Regulation on Internal Auditing of Bank of Mongolia", the auditing manual and the above mentioned program, a total of 40 regular, unexpected, partial on-site, and information and request based audits were performed at the 6 departments of the Bank of Mongolia, 19 provincial branches, 1 representative office and relevant corrective measurements were implemented as required.

Off-site auditions were performed by receipt and evaluation of the reports from the departments, the divisions, units on a regular basis and the activity reports from the provincial branches on a quarterly basis.

Researches with the purpose of improving the structure and location of the provincial branches and the representative office have been conducted in accordance with the Regional Development Policy of Mongolia, and the conclusions and proposals have been reported to the authority of the Bank of Mongolia.

Within the framework of the article stipulated in the Main Guideline for the State Monetary Policy, which says, "To continue experimenting the intensification of the budget management and financial reform in activities of some departments, divisions, and units", we have jointly participated in drawing up the plans, selection of the unit, and estimating their productivity and costs.

In the reporting year, an auditing of the financial statements of Bank of Mongolia for 2002 has been conducted by the "Ernst and Young Mongol Audit."

Issuance of Banknotes and Coins

In 2002, the Bank of Mongolia carried out the following activities in regards of the issuance of currency.

Notes in 10000 togrog denominations were printed at Giesecke & Devrient, the German company, and were issued and put into circulation in March 2002. Moreover, notes in 10 and 20 togrog denominations were re-printed at the British printing company, De La Ru, and were issued into circulation in June 2002.

In order to increase the lifespan of the banknotes, new notes were printed with special coating of a transparent overlay protection and some additional security features against possible counterfeiting have been added. For example, the hologram, which is the latest security technology, has been added to the notes of 10000 togrog; thus, improving the security features of the note. In 2002, the Bank of Mongolia signed an agreement with the German printing company, who have been selected on a tender basis as an executing agency for the re-printing of 5000 togrog note.

Furthermore, activities of supplying the economy with cash money, liquidation of old and damaged notes, re-counting and supervising have been conducting on a regular basis.

In the reporting year, the Bank of Mongolia has withdrawn a total of 51 billion togrogs from circulation and liquidated, and issued new notes with an amount of 66 billion togrogs for circulation. Circulation turnover of the issued coins have been pretty slow mostly due to the lack of usage resulting from their small denomination.

The majority of the circulating cash is in notes of larger denominations while the notes of small and medium denominations make up a relatively low percentage. This fact reveals that a large number of transactions has been executed in non-cash forms.

The Bank Training Center

In 2002, The Banking Training Center (BTC) organized training sessions and seminars on a regular basis and has placed more emphasis on improving the quality and extending the scope of the trainings. The BTC has prepared the program schedule and course outlines for 2002 based on proposals from the banks; as a result participation has been greatly improved, and in the reporting year, total of 801 bank staffs have been included in the 38 training sessions in 36 topics. In 2002, 1113 people from the Bank of Mongolia and commercial banks participated in training and other activities organized by the BTC in the country and abroad.

The Banking and Financial English course was organized three times during the reporting year in order to improve foreign language knowledge of the banking staff and out of 42 participants, 31 have completed the course successfully. In 2003, the English course will be continued and the BTC is completing the preparatory step to organize a beginning accounting course based on the request from the banks. The BTC has successfully passed the accreditation exam by the State Education Control Authority with a 100 percent mark.

In the reporting year, a total of 49 banking staff attended training abroad. In February 2002, two experts from the International Development Agency (IDA) of Sweden evaluated the project on training staff of the Mongolian banks, implemented by the IDA. In addition, the authorities of the IDA visited Mongolia in September and it was agreed to continue the project due to the satisfactory implementation of the project. A preliminary agreement has been made with the European Reconstruction and Development Bank to jointly implement the project of 250 thousand USD on training the banking employees.

Activities with the purpose of advertising banking activities, improving the education level and professional skills of the banking employees in their relations with the public, exchanging experiences and information between bank employees, and participating in cultural events were organized in accordance to the plan.

International Relations

In the reporting year, the Bank of Mongolia has continued its cooperation with foreign

Figure 41. Interbank settlement

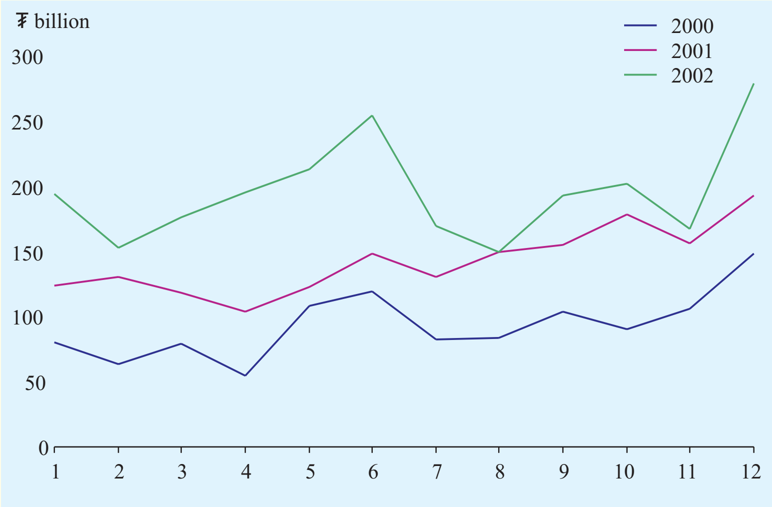
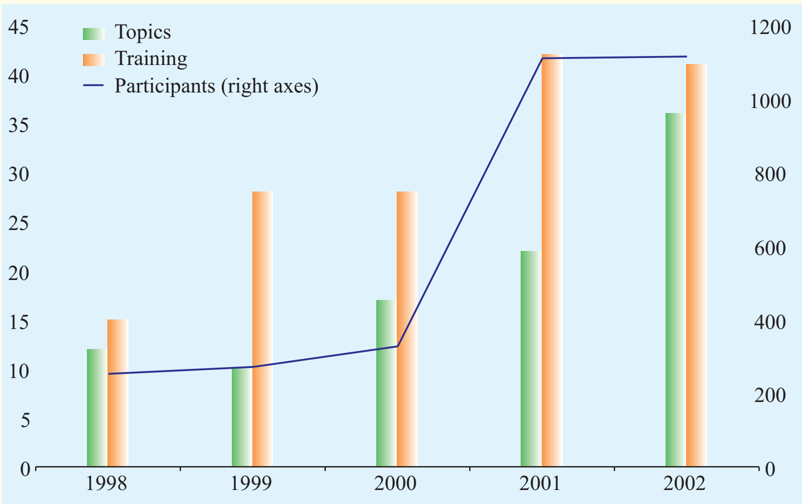


Figure 42. GDP turnover

Figure 43. Training and other activities organized



banks and financial institutions and has worked towards expanding foreign relations.

The Bank of Mongolia has expanded its foreign relations and started correspondent relations with several foreign banks. In addition, it has opened its own representative office in London, UK in order to intensively perform foreign activities. (Address: The Bank of Mongolia Representative Office, The Embassy of Mongolia, 8 Kensington Court, London W8 5DL, United Kingdom, tel: 0044-77-99641868)

In collaboration with the Government, the Bank of Mongolia has worked on the determination of the credit rating of Mongolia by the internationally respected Standard and Poor's.

For the first time, the Bank of Mongolia hosted the 37th Conference of South East Asian Central Bank (SEACEN) Governors in Ulaanbaatar under the theme 'Strengthening Financial and Economic Resilience in an Environment of Globalization'. Moreover, it has successfully organized Meeting of the SEACEN Experts, 99th Meeting of the Council for the International Bank of Economic Cooperation (IBEC) and the 76th Meeting of the Banking Council of the International Investment Bank (IIB) in Ulaanbaatar.

The Bank of Mongolia actively participated in the international activities against financing of terrorism and money laundering. In 2002, Mongolia has become an observer member of the Asia/Pacific Group on Money Laundering.

In order to advertise the banking activity at the international level, interviews have been given to and articles has been published on the LITV, International Press Service, Thomson Financial Publishing Asia Pacific, Central Banking Journal, Eurobusiness, and USA Today; and activities of the Bank of Mongolia have been regularly published at the magazine published by the SEACEN Research and Training Center.

6. THE DEVELOPMENTS OF BANKING LEGISLATION

In 2002, the BOM worked toward improving the policy framework by strengthening the stability of the banking system through improvements in the legal environment of banking.

The BOM participated actively in revising the Civil Law of Mongolia, and made it the framework of legal modernisation. As a result of this participation the BOM achieved better reflection of the common grounds of the banking related laws in the general legal bases, which opens up greater opportunity for the future development of the legal framework in banking. In addition, the BOM done great deal of work to amend and change existing laws to bring up these in line with the innovations.

One. Changes within the Civil Law

The Civil Law of Mongolia, effective from September 1, 2002, includes the following chapter, subchapter, articles, sections, and points, which are crucial for institutions conducting banking or non-bank financial activities.

1.1. Legal terms and requirements for the term of Money Payment Obligation (Chapter 16, subchapter 2), Financial Leasing Contract (Chapter 26), Payment Settlement (Chapter 44, subsection 1), Lending activity from legal entity authorized to conduct banking or lending activity (Subchapter 2), Money deposit (Subchapter 3) and Bank Guarantee (Subchapter 4) were defined.

1.2. Following, new to Mongolian legal understanding, legal term such as, Financial Leasing (Art.312), Options (Art.269), Franchise Agreement (Art.333-338), Letter of Credit (Art.450), Cash Collection Settlement (Art.450), A Fiduciary Contract (Art.253), Transfer of Rights to Claim (Art.123) and Debt Transfer (Art.124) were entered.

1.3. Previous Civil Law did not allow non-banking financial institutions to conduct other than commercial lending activities, however the new one removed that restriction and allowed NBFI's to conduct some of traditional banking services including payment settlement (Art.445) and money deposit (Art.454). This change opened new opportunities for many NBFI's and contributed to the development of fair competition.

1.4. If contractual parties agreed thereto in the loan agreement, the loan collateral can be transferred to the lender's disposal, upon the date of termination of the loan agreement (Art.453.2). This change secured and reinforced the Amendment passed by parliament in February 2, 2001.

1.5. It is stated that payment settlement, money deposit, and bank lending operation shall be governed by a separate law. (Art.445.8; 451.3; 454.7)

Two. Changes and amendments in the banking related laws to make consistent with the new Civil Law

2.1. In the Banking Law of Mongolia: the word "guarantee" added in the sentence before the words "bail" in the Article 6, subsection 1 and point 4, the Article 16, section 1, 2 and 3, of same article Point 3 of section 3 and of the Article 25, point 2 of section 8. A second sentence of the section 4 in the Article 24 restated as, "Bank liquidation and to meet claim born due to this liquidation shall follow the Article 32 of the Civil Law of Mongolia". The Article 45 of the Banking Law of Mongolia was deleted.

2.2. The Law of Money Deposit, Payment Settlement, and Bank Lending Activity of Mongolia (2002.7.4) and the Promissory Notes Law of Mongolia (2002.7.4) were amended. The amendments are mostly references to the newly passed Civil Law and numbers or locations of the relevant articles, sections and points were entered explicitly. Also, the Law on Money Deposit, Payment Settlement, and Bank Lending Activity was renamed to the Law on Money Deposit, Payment Settlement, and Bank Lending Activity of Banks or Authorized Legal Entities.

Three. In Regard with The Laws on Banking and Non-Banking Financial Activities

3.1. The Law to Amend the Banking Law of Mongolia (2002.5.2.) states that following shall read as continuation of the point 4 of the section 1 in the Article 15: "This Point shall not apply in case of the undisputedly seizure of tax due debt, from taxpayers account at their correspondent banks if taxpayer had tax debt in due".

3.2. The restriction for the banks to be involved in the commercial operations of the land was removed by deleting of the point 2 from the Article 7, subsection 4.

3.3. The legal ground for domestic precious metal refinery established with the amendment to the point 3 of the Article 7 in the Law of Treasury House of Mongolia. Other additional editing has also been made.

3.4. The Law on Non-Banking Financial Activity passed by the Parliament (2002.12.12). The numbers of NBFI's were established in last few years and this Law clarifies their legal status. The Law also makes licensing procedures of a NBFI simple and less bureaucratic. The aim of this legal act is to make available additional financial services to citizens in rural area and correctly define NBFI's role in a financial system.

The law defines non-banking financial activities as commercial lending, financial leasing, factoring, payment guarantee, electronic payment settlement, money order, trustee service (fiduciary), foreign exchange transactions, investment in to the short-term financial instrument, and information dissemination and consulting in investment finance. According to the law, the BOM shall license a legal entity applied to conduct non-banking financial activities not to attract deposits from others in a form of current account or/and saving deposits. The BOM is also responsible for supervision of the NBFI and shall ensure their compliance with the prudential regulations set by the BOM.

Hence, there has been an amendment made to the Law on Special Licensing of the Business Activities; that is, the 15.2.2 point of the Article 15 of this amendment extended to include additional type of business activity subject to the special license as “non-banking financial activity”.

3.5. The Law to amend the Cooperative Law passed in 12/12/2002. This amendment adds Chapter 6 that regulates activities of saving and credit cooperatives. The chapter sets requirements for the saving and credit cooperatives and composition of the equity stock. Saving and credit cooperatives have to be in compliance with prudential ratios and the requirement of minimum risk provisions set by the BOM.

Four. In regards with the other banking related laws

4.1. The Land Law of Mongolia (2002.6.7) and the Law of Mongolia to Give Land to Private Property of Mongolian Citizens (2002.6.28) were passed by the Parliament. These are most valuable efforts to establish legal ground for economic relations to strengthen land market, including promoting initiatives to use land on business purposes, better protection and correct exploitation of the land.

4.2. Amendments and changes were made to the Personal Income Tax Law of Mongolia (2002.12.5). The statement in section 2 of Article 4 reads as “The amount of income obtained in foreign currency will be calculated by selling the currency to a bank or by the exchange rate set up by the Bank of Mongolia” and it was changed to the statement as “The exchange rate of the Bank of Mongolia to sell foreign currency to banks, of the date, shall be used to convert income earned in foreign currency into togrog”. The year “2003” in the Article 12, section 2 is changed to “2005”, so, the date set to end an exemption from taxation income received as dividends, ownership share income, loan and saving income was prolonged.

4.3. The Law of Mongolia on Administrative Procedure was passed by parliament (2002.12.16). It provides a legal basis when individuals and legal entities claim a complaint to protect their interest, on the basis that administrative acts are illegal. This helps to improve responsibility of the BOM Governor’s decree and supervisor’s act.

4.4. The Law on Security Market of Mongolia was passed (2002.12.12) by the Parliament.

The Law governs security related issues, such as registration, keeping, trading, selling, transferring the property right certified by the security; information dissemination to investors on securities, protecting investors' interest; and supervision of the specialized institution participating in the security market.

A special license to issue a security shall be given to banks from Securities and Exchange Committee with the consultation of the BOM (20.3). The BOM holds the right to nominate one candidate as member of the Securities and Exchange Committee (32.1).

Five. Legal acts issued by the BOM

In 2002, the BOM made changes to 24 different regulations, instructions, manuals, and amendments.

Prime focus of the BOM regarding development of the legal acts is placed on bank supervisions, payment settlements and foreign currency regulations.

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

Mth	Day	Ref. No.	Title	Content
2	1	58	To license	The license of Non Bank Financial Institution (NBFI) to conduct commercial lending activity is given to the Mongol Pacific LLCo[1].
2	1	59	To license	The license of NBFI to conduct commercial lending activity is given to the Todsanaa LLCo.
2	6	71	To issue a regulation	"The regulation of the state supervisor's legal statuses" was issued. It regulates relations such as procedure of granting state supervisor's right, supervisor's authority, monitoring their actions, and sanction and other administrative penalties to the state supervisors.
2	7	74	To give permission for establishing a branch	It allows the AGBANK bank to establish a branch in Chingeltei district of Ulaanbaatar city.
2	12	84	To issue a "Regulation to Enter in Foreign Currency Transaction Contract and Make Deposit Agreement with Domestic Banks"	This regulates relations when the BOM enter into the contract with domestic banks to on foreign currency transaction and deposit placement on each side.
2	12	87	To give permission for establishing a branch	It allows the Zoos bank to establish a branch in Arvaikheer sum of Uvurkhangai aimag
2	25	90	To license	The license of NBFI to conduct commercial lending activity is given to the Darkhan Tsalam LLCo.
2	25	91	To license	The license of NBFI to conduct commercial lending activity is given to the Gurvan Bar Credit LLCo.
2	26	98	To license	The license of NBFI to conduct commercial lending activity is given to the Bat And Invest LLCo.
2	26	99	To license	The license of NBFI to conduct commercial lending activity and to sell/buy foreign currency in cash and non cash form is given to the Ikh Jas LLCo.
3	8	117	To license	The license of NBFI to conduct commercial lending activity is given to the Euro-bat LLCo.
3	14	127	To license	The license of NBFI to conduct commercial lending activity is given to the Aktiv Invest LLCo.
3	19	133	To amend regulation	Clauses 2.2., 2.3., 3.2., 3.4., 3.9., 3.10., 3.13., and 3.18 of the "Regulation on Central Bank Bills" were amended. Formula for calculation the discount rate from day to maturity was renewed. New clause as 3.19 was introduced
3	19	35	To license	The license of NBFI to conduct financial leasing activity is given to the Mongol Leasing LLCo.
3	27	147	To license	The license of NBFI to conduct commercial lending activity is given to the Khanui San LLCo.
4	10	178	To give permission for establishing a branch	It allows the Golomt bank to establish a branch in Darkhan Uul aimag
4	11	181	To license	The license of NBFI to conduct commercial lending activity is given to the Diamond Kalla LLCo.
4	17	188	To give permission for additional activity	Permission to sell/buy foreign currency in cash and non cash form given to the Mon-Arvissan LLCo.
4	18	192	To license	The license of NBFI to conduct commercial lending activity is given to the Assets Invest LLCo.

4	18	193	To license	The license of NBFI to conduct commercial lending activity and to sell/buy foreign currency in cash and non cash form given to the H.K.B. Credit LLCo.
4	19	195	To license	The license of NBFI to conduct commercial lending activity is given to the Alfa Credit LLCo.
4	23	198	To license	The license of NBFI to conduct commercial lending activity is given to the Credit Solution LLCo.
4	24	201/55	To issue a regulation	"The Regulation to Give Information From State Civil Registration Centre (SCRC) to the Credit Information Centre of The BOM" was issued. This allows to obtain better information from SCRC to the BOM about individuals, which are the borrowers, holders of the guarantee or letter of credit, to reduce credit risk of the NBFIs.
5	6	210	To license	The license of NBFI to conduct commercial lending activity and to sell/buy foreign currency in cash and non cash form given to the New Asia LLCo.
5	6	212	To license	The license of NBFI on factoring service is given to the Mongoltrust fincom LLCo.
5	6	220	To amend regulation	"The Regulation of Establishing a Bank or Bank Branch" was amended. The sections 4.2., 6.1 and 6.4., sentence 8 of the section 6.5., and sentence 4 of the section 6.3 were amended. Section 4.2 from Chapter 4 and section 6.2 from Chapter 6 were deleted.
5	9	229	To license	The license of NBFI to conduct commercial lending activity is given to the Fin-Invest LLCo.
5	9	230	To license	The license of NBFI to conduct commercial lending activity is given to the Khishig Ikh San LLCo.
5	10	231	To give ordinary permission that allows Inter Bank to conduct foreign currency transactions	Ordinary permission of foreign currency transaction was given to that bank.
5	16	246	To license	The license of NBFI to conduct commercial lending activity is given to the Tugs Edlel LLCo.
5	16	247	To license	The license of NBFI to conduct commercial lending activity is given to the Inter Finance LLCo.
5	16	248	To license	The license of NBFI to conduct commercial lending activity is given to the Zuun Funt LLCo.
5	17	249	To license	The license of NBFI to conduct commercial lending activity is given to the Tugs Buren LLCo.
5	17	252	To amend regulation	"The Regulation of the State Supervisor's Legal Statuses" was amended. Section 5 and 6, "Report of the supervisory work" and "Announcement of lost blank fine receipt and stamp" were approved as an attachment.
5	31	266	To license	The license of NBFI to conduct commercial lending activity is given to the Devj San LLCo.
5	31	267	To license	The license of NBFI to conduct commercial lending activity is given to the Chinbaa Invest LLCo.
5	31	268	To license	The license of NBFI to conduct commercial lending activity and to sell/buy foreign currency in cash and non cash form given to the Enkh Sar Invest LLCo.

6	5	277	To license	The license of NBFI to sell/buy foreign currency in cash and non cash form given to the ABTS LLCo.
6	5	278	To license	The license of NBFI to conduct commercial lending activity and to sell/buy foreign currency in cash and non cash form given to the Invest Credit LLCo.
6	5	279	To permit Capitron Bank be engaged in some financial activities	The permission allow to conducts following service and transactions: provide payment guaranties to third parties; purchasing, selling, depositing and placing in deposit precious metals and stones; conducting foreign exchange and transaction services; dealing in financial leasing transactions; financial leasing operations
6	13	294	To amend a temporary regulation of the Bank of Mongolia accounting	The amendment entered to the following parts of the regulation: the clauses 3.5 "Foreign currency revaluation" of chapter B-3 "Foreign settlement accounting" and 2.2.7 "Revaluation of precious metal" of chapter B-2 "Precious metal" of the Section B Asset; the clause 6.2.4 "Revaluation funds" of chapter C-6 "Own capital" of the section C Liability.
6	20	301	To license	The license of NBFI to conduct commercial lending activity is given to the Quick Finance LLCo.
6	28	309	To license	To allow "Bogd Khaan Palace Museum" open a money change point.
7	1	314	To license	The license of NBFI to conduct commercial lending activity is given to the San Standart LLCo.
7	8	337	To give additional permission	The permission gave right to the Invesscom NBFI LLCo. to be engaged in the money transferring/order service and to sell/ buy foreign currency in cash and non cash form.
7	8	339	To license	The license of NBFI to conduct commercial lending activity is given to the Itgel San LLCo.
7	18	357	To license	The license of NBFI to conduct commercial lending activity is given to the Buyant Ukhaa San LLCo.
7	18	359	To license	The license of NBFI to conduct commercial lending activity is given to the Talyn Mongol Capital LLCo.
8	12	383	To license	The license of NBFI to conduct commercial lending activity is given to the As-Oodoo LLCo.
8	19	392	To issue partially the "Regulation of the Bank of Mongolia Accounting"	The Chapters B-2 "Precious metal" and B-3 "Foreign settlement accounting" were merged and issued as "Foreign Settlement Accounting" that was previously issued in "Temporary Regulation of the Bank of Mongolia Accounting" by the order 202 of 25/05/1998. "The Chart of Account for the Bank of Mongolia: off-balance items" that was previously issued by the order 451 of 15/11/1998 was renewed and reissued.
9	24	456	To license	The license of NBFI to conduct commercial lending activity is given to the Credit Leasing LLCo.
9	25	463	To amend a temporary regulation of the Bank of Mongolia accounting	Some related issues from the sub section B-2.4.3 "Foreign currency swaps", B-2.4.4 "Foreign currency forwards" and B-2.4.5 "Foreign currency options" of the section "Foreign settlement accounting" were deleted.

10	2	477/292	To amend a regulation	Changes made in the section 1 of the Chapter I, the section 15 of the Chapter II, the 2nd clause in section 2 of the Chapter III, and the section 7 of the Chapter III. The sections 3 and 4 of the Chapter IY were amended.
10	2	479	To issue a "Regulation on Foreign Settlement Through International Inter-bank Electronic Netware"	The regulation sets rules and instructions to maintain normal conditions of computers and other equipments of the BOM that connected to International Inter-bank Electronic Netware; to enter information into the net, to monitor, to permit information passage and to receive information; sets orders to work with information; sets rules to provide safety and security of the information; and sets rights and responsibilities of the personnel.
10	3	480	To revoke a license	The license of the H. K. B. NBFI was revoked
10	7	486	To permit the Erel bank to purchase, sell, deposit and to place in deposit precious metals and stones	The Erel bank obtained those rights of banking services.
10	28	512	To permit the XAC bank to conduct some banking activities	The XAC bank received rights of conducting foreign exchange and transaction services.
11	1	522	To license	The license of NBFI to conduct commercial lending activity is given to the Ornokh Invest San LLCo.
11	8	531	To license	The license of NBFI to conduct commercial lending activity is given to the T and D Finance LLCo.
11	8	535	To license	The license of NBFI to conduct commercial lending activity is given to the Javkhlant Aldarkhaan LLCo.
11	25	566	To issue a regulation	Regulation on conducting a consolidated supervision in banks and NBFI was issued. It regulates on-site supervision actions conducted by supervisors based on banks' and NBFIs' primary financial and accounting documents to ensure an enforcement of the related law and legal documents.
12	13	594	To issue a "Regulation on Safety in the Work Place of Inter-bank Electronic Settlement Personnel"	This regulates issues related to the safety of the inter-bank electronic settlement, speed of transfer, genuineness of information and security of the net.
12	119	600	To issue an instruction	An instruction for "Implementation of Prudent Management Principles in the Banking Institution" was issued. The instruction was issued to implement prudent management in the banks, because of given importance of the banks to provide companies, organizations and individuals with financial resources delivers fundamental financial services and allow them to participate in the settlement system.
12	24	612	To set a sample	Sample Charter of the banking institution was set.
12	25	617	To license	The license of NBFI to conduct commercial lending activity and to sell/buy foreign currency in cash and non cash form given to the Nomin Card LLCo.
12	25	618	To license	The license of NBFI to conduct commercial lending activity and to sell/buy foreign currency in cash and non cash form given to the Khatan Suld LLCo.
12	25	619	To license	The license of NBFI to conduct commercial lending activity is given to the Tuul Credit LLCo.

12	30	29	To reissue a regulation	“Regulation on Organizing Cashier Work at the Bank of Mongolia” and “Instruction of Counting of Banknotes and Its Monitoring” were issued. Former regulates cash transactions of banks, individuals and legal entities in accordance with the Law on Central Bank, conduct of cash transactions and sets rules for acts such as receiving or delivering cash notes and coins, book and store them. Latter sets rules and orders in counting, checking and its monitoring of the cash notes and coins to check quality condition, numbers of note, and nominal value of the money received from banks, individuals and legal entities in bags or sacks by the BOM.
12	31	633	To amend regulation	To issue a “Regulation to Enter in Foreign Currency Transaction Contract and Make Deposit Agreement with Domestic Banks”

AUDITORS' REPORT

To Bank of Mongolia (The Central Bank)

We have audited the financial statements of Bank of Mongolia (the "Bank").

Respective responsibilities of directors and auditors

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

Specifically, the financial statements of the Bank of Mongolia have been prepared to comply with applicable International Accounting Standards. The Board of Directors is responsible for ensuring that these financial statements, which have been prepared on the basis set out in the financial statements, present fairly the financial position of the Bank as at 31 December 2002 and of the results for the year to that date.

The Board of Directors is responsible for ensuring that proper accounting records are kept, which disclose at any time the financial position of the Bank and enable the Board to ensure that the financial statements comply with the requirements set out in note 3 and note 4 thereto. The Board of Directors is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

ERNST & YOUNG

Basis of opinion

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

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud, other irregularities or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements, the basis of which is described in note 3 and note 4.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of Mongolia as at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with applicable International Accounting Standards.

Ernst & Young Mongol Audit Co.

3 April 2003
UlaanBaatar
Mongolia

BANK OF MONGOLIA (THE CENTRAL BANK)

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

(For the year ended 31 december 2002)

	Note	2002 MNT million	2001 MNT million
Interest and similar income	5	**7,541**	7,957
Interest expense and similar charges	6	**(5,313)**	(4,320)
Net interest income		**2,228**	3,637
Monetary gold gains, net		**11,507**	4,022
Foreign currency gains, net		**12,822**	1,951
Other operating income		**345**	424
Exceptional item		**-**	9,959
Net non interest income		**24,674**	16,356
Total income		**26,902**	19,993
Movement in provisions	7	**2**	29
Administrative expenses	8	**(2,828)**	(2,206)
Other operating expenses	9	**(2,314)**	(3,862)
Profit for the year		**21,762**	13,954

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

BANK OF MONGOLIA (THE CENTRAL BANK)

BALANCE SHEET AS AT 31 DECEMBER 2002

(For the year ended 31 december 2002)

	Note	2002 MNT million	2001 MNT million
ASSETS			
Cash on hand	**10**	**13,771**	8,067
Monetary gold and precious metals	**11**	**63,010**	67,828
Investment in foreign securities	**12**	**51,321**	23,812
Deposits and placements with foreign financial institutions	**13**	**253,855**	211,745
Placements with, and advances to local financial institutions	**14**	**8,326**	7,217
Government securities	**15**	**-**	13,570
Advances to the Ministry of Finance and Economy	**16**	**39,807**	38,314
Loans to companies	**17**	**165**	165
Other assets	**18**	**1,100**	116
Property, plant and equipment	**19**	**13,524**	12,280
TOTAL ASSETS		**444,879**	383,114
LIABILITIES AND CAPITAL FUNDS			
Cash in circulation		**134,643**	119,206
Debts issued	**20**	**60,810**	50,000
Foreign currency liabilities	**21**	**130,704**	129,345
Deposits of Ministry of Finance and Economy	**22**	**19,091**	13,306
Deposits of local financial institutions	**23**	**44,155**	26,581
Other liabilities	**24**	**20,767**	7,654
TOTAL LIABILITIES		**410,170**	346,092
CHARTER FUND AND RESERVES			
Charter fund	**25**	**5,000**	1,000
Reserves	**26**	**29,709**	36,022
TOTAL EQUITY		**34,709**	37,022
FUNDS EMPLOYED		**444,879**	383,114

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

BANK OF MONGOLIA (THE CENTRAL BANK)

STATEMENT OF CHANGES IN EQUITY

(For the year ended 31 december 2002)

	Note	Charter Fund MNT million	Retained Earnings MNT million	General Reserve MNT million	Revaluation Reserve MNT million	Foreign Exchange Revaluation Reserve MNT million	Total MNT million
At 1 January 2001		1,000	3,154	1,750	10,395	10,876	27,175
Profit for the year		-	13,954	-	-	-	13,954
Transfer to General Reserve		-	(1,654)	1,654	-	-	-
Transfer to State Budget		-	(2,500)	-	-	-	(2,500)
Transfer to Social Development Fund		-	(3,000)	-	-	-	(3,000)
Gains / (losses) on revaluation		-	-	-	1,844	(451)	1,393
At 31 December 2001		**1,000**	**9,954**	**3,404**	**12,239**	**10,425**	**37,022**
Profit for the year		-	21,762	-	-	-	21,762
Transfer to Charter Fund		4,000	(4,000)				-
Transfer to Revaluation Reserve		-	-		14,194	(14,194)	-
Transfer to State Budget	27	-	(10,954)	-	(7,423)	-	(18,377)
Transfer to Social Development Fund		-	(3,000)	-	-	-	(3,000)
Unrealised gain on available for sale							-
financial assets transferred to reserve		-	(7,134)	-	7,134	-	
Net loss on available for sale financial assets					(6,781)	-	(6,781)
Currency translation differences		-	-	-	-	3,769	3,769
Net gain on revaluation of property, plant and equipment		-	-	-		-	
		-	-	-	314		314
						-	
At 31 December 2002		**5,000**	**6,628**	**3,404**	**19,677**		**34,709**

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

BANK OF MONGOLIA (THE CENTRAL BANK)

CASH FLOW STATEMENT

(For the year ended 31 december 2002)

	Note	2002	2001
		MNT million	MNT million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**21,762**	13,954
Adjustments for :-			
Net realised (gains)/losses on available for sale financial assets taken directly to reserve		**(2,698)**	1,393
Unreliased gain on revaluation of property, plant and equipment		**(605)**	-
Property, plant and equipment written off		**681**	-
Loss on disposal of property, plant and equipment		**1**	46
Depreciation		**503**	308
Operating profit before working capital changes		**19,644**	15,701
(Increase) / Decrease in operating assets:-			
Monetary gold and precious metals		**4,818**	(36,235)
Deposits and placements with foreign financial institutions		**(42,110)**	(7,199)
Investment in foreign securities		**(27,509)**	24,017
Placements with, and advances to local financial institutions		**(1,109)**	(4,236)
Government securities		**13,570**	(3,697)
Advances to Ministry of Finance and Economy		**(1,493)**	(14,756)
Loans to companies		**(14)**	(151)
Other assets		**(970)**	12
Increase / (Decrease) in operating liabilities:-			
Cash in circulation		**15,437**	11,812
Debts issued		**10,810**	28,900
Foreign currency liabilities		**1,359**	(3,721)
Deposits of Ministry of Finance and Economy		**5,785**	(4,630)
Deposits of local financial institutions		**17,574**	1,043
Other liabilities		**13,113**	4,365
Net cash flow from operating activities		**28,905**	11,225

BANK OF MONGOLIA (THE CENTRAL BANK)

CASH FLOW STATEMENT

(For the year ended 31 december 2002)

	Note	2002 MNT million	2001 MNT million
Net cash flow from operating activities		**28,905**	11,225
CASH FLOW FROM FINANCING ACTIVITIES			
Transfer to Government		**(18,377)**	(2,500)
Contribution to Social Development Fund		**(3,000)**	(3,000)
Net cash flow from financing activities		**(21,377)**	(5,500)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		**2**	-
Purchase of property, plant and equipment		**(1,826)**	(1,676)
Net cash flow from investing activities		**(1,824)**	(1,676)
Net increase in cash and cash equivalents		**5,704**	4,049
Cash and cash equivalents brought forward		**8,067**	4,018
Cash and cash equivalents carried forward	28	**13,771**	8,067

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

BANK OF MONGOLIA (THE CENRAL BANK)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

1. GENERAL

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

The financial statements of the Bank for the year ended 31 December 2002 have been received by the Governor of Bank of Mongolia on behalf of the State Ih Hural on 3 April 2003.

2. MAIN RESPONSIBILITIES

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

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

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

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

3. BASIS OF PREPARATION

The Bank of Mongolia's financial statements have been prepared so as to present fairly the state of affairs of the Bank, and its results, cash flows and total recognised gains or losses, and in accordance with applicable International Accounting Standards ("IAS"), insofar as they are appropriate to a central bank, with the limitations explained below.

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

3. BASIS OF PREPARATION (CONTD.)

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

On 1 January 2002, the Bank adopted IAS 39 'Financial Instruments: Recognition and Measurement'. Adoption of IAS 39 involved the following change in accounting policies as applied under the transitional rules detailed in that Standard:

investment securities held by the Bank at 1 January 2002 were designated as available-for-sale under IAS 39 and accordingly are now recorded at fair value. Changes in the fair values of available-for-sale financial assets are recorded in net profit or loss for the period. However, the Bank subsequently transfers the unrealised gains or losses on the available for sale financial instruments to the revaluation reserve as prescribed in paragraph 3, Article 37 of the Central Bank Law of Mongolia. Previously, investment securities held by the Bank were carried at cost less any impairments in value. Comparative amounts have not been restated.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest income and expense

Interest income and expense are recognised on an accruals basis.

(b) Foreign currencies

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

The principal exchange rates used are:-

	2002	**2001**
US Dollar (USD)	1,125.00	1,102.00
Special Drawing Rights (SDR)	1,519.20	1,382.40

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Foreign currencies (contd.)

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

Income and expenditure are translated into Togrog at the exchange rates ruling at the date of transactions. Forward foreign currency contracts are marked to market on a weekly basis.

(c) Provision for loan loss

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

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash and short term funds, deposits and placements with other financial institutions that are readily convertible to cash with insignificant risk of changes in value.

(e) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as held for trading and available-for-sale are measured at fair value. Gains or losses on investments held for trading are recognised in income. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

All regular way purchases of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. All regular way sales of financial assets are recognised on the settlement date i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Derivative financial instruments

The Bank uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

In relation to fair value hedges (interest rate swaps) which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognized in net profit or loss.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Precious metals

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

(h) Property, plant and equipment

The Bank of Mongolia's property, plant and equipment are stated at cost, or at revalued amount, less depreciation calculated on the straight line basis over their estimated useful lives of the assets. The depreciation rates used prior to 2002 were at the rates prescribed by the Government order 8 dated 12 January 1994. However, commencing from 1 January 2002, the Bank has changed the depreciation rates on buildings, furniture and equipment and computers to the rates as stated below.

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.

The depreciation rates used by the Bank are as follows:

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

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

(i) Taxation

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

(j) Use of estimates

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) Retirement and other benefit obligations

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

5. INTEREST AND SIMILAR INCOME

	2002	**2001**
	MNT million	MNT million
Deposits and placements with foreign financial institutions	**6,589**	7,197
Placements with, and advances to local financial institutions	**91**	87
Advances and loans to Ministry of Finance and Economy ("MOFE")	**861**	673
	7,541	7,957

6. INTEREST EXPENSE AND SIMILAR CHARGES

	2002	**2001**
	MNT million	MNT million
Loans from foreign financial institutions	**105**	403
Demand deposits of local financial institutions	**179**	446
Debt issued by Bank of Mongolia	**3,741**	2,857
Other interest expense	**1,288**	614
	5,313	4,320

7. MOVEMENT IN PROVISIONS

	2002	**2001**
	MNT million	MNT million
Provision charged for the year	**-**	25
Write back of provisions	**(2)**	(54)
	(2)	(29)

8. ADMINISTRATIVE EXPENSES

	2002	2001
	MNT million	MNT million
Salaries and employee benefits	**650**	570
Communication	**331**	318
Utilities	**266**	232
Transportation and travelling	**179**	170
Security	**199**	131
Depreciation	**503**	308
Others	**700**	477
	2,828	2,206

The number of persons employed by the Central Bank as at the year end is as follows:

	2002	2001
	Number	Number
Governor and Directors	**17**	15
Supervisors and Economists	**83**	112
Technical / Others	**108**	68
Branches	**94**	91
	302	286

9. OTHER OPERATING EXPENSES

	2002	2001
	MNT million	MNT million
Cost of banknotes	**2,169**	3,789
Others	**145**	73
	2,314	3,862

10. CASH ON HAND

	2002	2001
	MNT million	MNT million
Cash in local currency	**26**	25
Cash in foreign currency	**13,745**	8,042
	13,771	8,067

11. MONETARY GOLD AND PRECIOUS METALS

	2002	2001
	MNT million	MNT million
Monetary gold	**56,019**	55,249
Non-monetary gold	**3,900**	9,756
Coins and cultural valuables	**2,893**	2,573
Other precious metals	**198**	250
	63,010	67,828

The market value of monetary gold at year end is MNT56,019 million (2001: MNT56,554 million).

12. INVESTMENT IN FOREIGN SECURITIES

	2002	2001
	MNT million	MNT million
Promissory notes	**37,596**	9,927
Investment in US Government securities	**13,725**	13,885
	51,321	23,812

The investment in US Government securities represents short term promissory notes amounting to USD12.2 million (2001 : repurchase agreement amounting to USD12.6 million).

13. DEPOSITS AND PLACEMENTS WITH FOREIGN FINANCIAL INSTITUTIONS

	2002	2001
	MNT million	MNT million
Placements repayable on demand	**1,956**	2,250
Short-term time deposits	**179,035**	137,505
Allocation of SDR in IMF	**71,401**	70,483
World Bank	**1,448**	1,497
Others	**15**	10
	253,855	211,745

The short-term time deposits with maturity periods up to 30 days, bear interest at annual rates ranging from 1.20% to 6.00% (2001: 1.58% to 5.89%). All the short-term time deposits are denominated in USD and are at an average interest rate of 1.5% (2001 :1.9%).

SDR are allocated to the Bank in proportion to its subscription to the IMF. The amount allocated to the Bank is currently at SDR47 million, equivalent to MNT71 billion. This amount is offset by a corresponding liability (see note 21) and is non-interest bearing.

14. PLACEMENTS WITH, AND ADVANCES TO LOCAL FINANCIAL INSTITUTIONS

	2002	2001
	MNT million	MNT million
Short-term time deposits	-	2,219
Refinancing loan	**130**	130
Loans in local currency	**3,631**	1,890
Loans in foreign currency	**4,277**	3,108
Other receivables	**3,486**	3,068
Gross placements and advances	**11,524**	10,415
Less: Provisions for losses	**(3,198)**	(3,198)
	8,326	7,217

The refinancing loan was made to a local commercial bank which is currently insolvent. A full provision of MNT130 million has been made against this loan.

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

Other receivables includes a payment of USD3.2 million made by the Central Bank to settle guarantees issued in favour of a local bank which is currently insolvent. A provision amounting to USD2.8 million has been made by the Central Bank against this amount. The Central Bank is of the opinion that no additional provision is necessary for the remaining balance.

Movement in the provision for losses is as follows:

	2002	2001
	MNT million	MNT million
Balance at 1 January	**3,198**	4,864
Charge for the year less write backs	-	25
Provision written off	-	(1,691)
Balance at 31 December	**3,198**	3,198

15. GOVERNMENT SECURITIES

	2002	2001
	MNT million	MNT million
Government bonds	-	13,570
Less: Provision for diminution in value	-	-
	-	13,570

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

	2002	2001
	MNT million	MNT million
Balance at 1 January	**-**	9,806
Charge for the year	**-**	-
Provision written off	**-**	(9,806)
Balance at 31 December	**-**	-

16. ADVANCES TO THE MINISTRY OF FINANCE AND ECONOMY ("MOFE")

	2002	2001
	MNT million	MNT million
Poverty Reduction and Growth Facility Loan	**39,807**	38,314

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

17. LOANS TO COMPANIES

	2002	2001
	MNT million	MNT million
Loans to local companies	**867**	868
Other loan	**165**	165
	1,032	1,033
Less: Provision for losses	**(867)**	(868)
	165	165

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

Other loan, which included interest receivable amounting to MNT14 million (2001 : MNT14 million) represents loan granted to a local finance company under the United Nations Development Programme. The Bank of Mongolia acts as an agent to the organisation in disbursing this loan for the purpose of supporting the non-banking financial institutions to expand their services in favour of the Mongolian economy. This amount is offset by a corresponding liability (see note 21).

Movement in the provision for losses is as follows:

	2002	2001
	MNT million	MNT million
Balance at 1 January	**868**	903
Write-back for the year	**(1)**	(35)
Balance at 31 December	**867**	868

18. OTHER ASSETS

	2002	2001
	MNT million	MNT million
Derivative financial instruments	**922**	-
Others	**178**	116
	1,100	116

Included in the derivative financial statements are the net positions of monetary gold forward and option contracts valued at fair values amounting to MNT357,000 and MNT921,960,000 respectively. All open positions as at 31 December 2002 have been closed off with the same counterparty and maturity dates.

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

In 1999, the Bank Mongolia entered into a swap agreement with a financial institution which will mature in 2004. Under this agreement, the Bank exchanged 32,000 troy ounces of monetary gold for USD8.2 million and committed to repurchase this gold at maturity at a price fixed in the agreement. The Bank of Mongolia also pays to the counterpart an annual amount of interest, which is fixed in gold ounces as compensation for interest rate differentials. This agreement is not cancellable for the Bank. The Bank's gains and losses under the agreement will depend upon the interest rate differentials between US dollars and gold deposit markets. The Bank of Mongolia is not expected to incur any material loss from this transaction.

20. DEBTS ISSUED

This represents Bank of Mongolia bills issued by the Bank to local financial institutions. Such bills have maturities of between one week to three months, and bear interest at a range of between 12.0% to 14.5% per annum (2001: 7% to 15%).

21. FOREIGN CURRENCY LIABILITIES

	2002	2001
	MNT million	MNT million
International Monetary Fund (IMF)		
- Loans received under PRGF	**47,609**	51,528
- Securities issued in respect of SDR quota	**71,401**	70,483
Loans received from a foreign government and international organisations	**9,703**	5,586
Subscription to World Bank and International Development Agency	**1,840**	1,597
Subscription to other international organisations	**151**	151
	130,704	129,345

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings		Furniture and office equipments		Computers		Motor vehicles		Capital work in progress		Total	
In MNT million	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Balance at beginning of year, net of accumulated depreciation	**10,124**	10,171	**303**	301	**466**	295	**220**	191	**1,167**	-	**12,280**	10,958
Additions	**99**	88	**98**	47	**91**	270	**177**	104	**1,361**	1,167	**1,826**	1,676
Disposals / write off	**(307)**	(8)	**(6)**	(3)	**-**	(8)	**(8)**	(27)	**(363)**	-	**(684)**	(46)
Revaluation	**605**	-	**-**	-	**-**	-	**-**	-	**-**	-	**605**	-
Depreciation	**(250)**	(127)	**(48)**	(42)	**(142)**	(91)	**(63)**	(48)	**-**	-	**(503)**	(308)
Balance at end of year, net of accumulated depreciation	**10,271**	10,124	**347**	303	**415**	466	**326**	220	**2,165**	1,167	**13,524**	12,280
Property, plant and equipment												
At cost	**10,784**	10,396	**537**	454	**798**	732	**554**	390	**2,165**	1,167	**14,838**	13,139
Accumulated depreciation	**(513)**	(272)	**(190)**	(151)	**(383)**	(266)	**(228)**	(170)	**-**	-	**(1,314)**	(859)
Net carrying amount	**10,271**	10,124	**347**	303	**415**	466	**326**	220	**2,165**	1,167	**13,524**	12,280

Included in the cost of buildings of the Bank is an amount of MNT605 million (2001: nil) which arose from a valuation done on the buildings of the Bank in 2002 by a professional valuer.

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

Included under the loans received from foreign government and international organisation is a loan from the Government of Germany under the small and medium enterprise scheme in 1995. The loan bears interest of 1% per annum with a tenure of 40 years. The repayment of the loan principal will commence in 2005 (see note 14).

The subscription to other international organisation includes aid received from the United Nations Development Programme to promote the activities of non banking financial institutions in Mongolia. The funds are to be channelled via micro lending to the lower income earners (see note 17).

Securities issued in respect of SDR quota are offset by a corresponding asset (see note 13) and are non-interest bearing.

22. DEPOSITS OF MINISTRY OF FINANCE AND ECONOMY ("MOFE")

	2002	**2001**
	MNT million	MNT million
State budget account	**19,091**	13,306

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

23. DEPOSITS OF LOCAL FINANCIAL INSTITUTIONS

These deposits are in relation to current accounts maintained by local financial institutions and include obligatory reserves of commercial banks maintained with the Bank of Mongolia, calculated as a percentage of their eligible liabilities to deposit holders without bearing any interest for the financial year ended 31 December 2002 (2001: 4.8% to 12.6% per annum).

24. OTHER LIABILITIES

Other liabilities include other government organisation accounts maintained with the Bank amounting to MNT14.49 billion (2001: MNT3.62 billion). Also included in other liabilities is a provision for social fund amounting to MNT5.38 billion (2001: MNT2.91 billion). This fund is maintained for the welfare of the employees.

25. CHARTER FUND

The Bank of Mongolia is 100% owned by the State. The Charter Fund represents the capital of the Bank. With effect from 1 January 2002, the law has been amended to allow the Bank to increase its Charter Fund to MNT5 billion. This has been carried out by way of capitalisation of retained profits.

26. RESERVES

Reserves includes General Reserve, Revaluation Reserve and Foreign Exchange Revaluation Reserve.

In accordance with the Law of Mongolia on Central Bank (Bank of Mongolia), at least 40% of the Bank's net income is allocated to its General Reserve Fund with the remaining balance transferred to the State Budget account. However, no such allocation was done in 2002 as the Government overruled this Law by approving a transfer of MNT5 billion to the State Budget (see note 27).

The revaluation reserve is used to record net unrealised revaluation gains on revaluation of available for sale financial assets and property, plant and equipment. The foreign exchange revaluation reserve has been combined with the revaluation reserve and as such, is no longer in use.

27. TRANSFERRED TO GOVERNMENT BUDGET

Pursuant to Article 38 of the Law of Mongolia on Central Bank, the Bank of Mongolia has transferred MNT5.95 billion in respect of last year's retained profits and MNT5 billion in respect of current year's profit to the State Budget. And according to a request from the Ministry of Finance and Economy, the Bank transferred MNT7.4 billion which represents the realised portion of the Revaluation Reserve to the State Budget.

28. CASH AND CASH EQUIVALENTS

	2002	**2001**
	MNT million	MNT million
Cash and cash equivalents are represented by the following item in the balance sheet :		
Cash on hand	**13,771**	8,067

29. COMMITMENTS AND CONTINGENCIES

a) Foreign exchange commitments and derivatives

	2002	**2001**
	MNT million	MNT million
Monetary gold futures trading	-	38,779
Foreign currency futures trading	-	57,694
	-	**96,473**

With the adoption of IAS 39 by Bank of Mongolia in 2002, the net positions of monetary gold and foreign currency futures trading has been recognised on the balance sheet as highlighted in note 18.

b) Guarantees

	2002	2001
	MNT million	MNT million
Guarantee granted	-	480

Guarantee granted in 2001 relates to the promissory note issued by the Government to a third party and guaranteed by the Bank amounting to USD435,000. There were no such guarantees issued by the Government in 2002.

c) Legal

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

d) Lease obligations

The Bank has no material lease obligations as of 31 December 2002.

e) Capital Commitments

On 20 July 2001, the Board of Directors of the Bank of Mongolia approved a capital commitment of approximately MNT2.4 billion. However, this amount has been increased to MNT2.88 billion. This relates to the construction of a new building situated within the head office building area. As at the date of this report, the percentage of its completion is estimated at 60% and approximately MNT1.5 billion has been paid.

30. RISK MANAGEMENT POLICIES

The Bank manages its interest rate, credit, liquidity, operational, and reputational risks by decisions and guidelines set by the Board of Directors to ensure all operations of the Bank are conducted in a prudent manner.

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

(a) To minimise credit risk:

- Foreign reserves are placed in less risky assets, as demand deposit accounts with central banks from developed countries such as USA, Japan, Germany, United Kingdom, and Switzerland; and as 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 financial institutions.

- Occasionally parts of the reserves are held with institutions with lower ratings, but with long term traditional partners. In that case careful analysis is conducted, and proposals are submitted for a review to the Governor for a decision.

- Each quarter a list of international financial institutions and their limits for each individual institution is submitted for an approval.

(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.

(d) To manage operational risk of foreign reserves:

- Separate and independent front office and back office structure is created in the bank;
- Clear definition of roles and separation of duties for each department and unit trading is set;
- Quarterly stop-loss limit and open position limit for each individual dealer for each individual financial instrument and foreign currency is approved.

Double checking and offsite control of trading activities have been imposed. Reporting scheme has been set to channel all information to the management directly from different sources.

The Bank may grant loans to the Government as well as to the banks under the Central Bank Law.

Liquidity risk, that arises, from this activity is managed under regulations "Loan To The Government and Its Repayment" (Governor's Order 255, 2001) and "Refinancing Facility" (Governor's Order 178, 1997).

In particular,

(1) Credit risk of the Government

(i) In accordance with article 18, section 2 of the Central Bank Law, the total sum of short-term government securities purchased by the Bank and loans to the Government shall not exceed 10 percent of an average domestic government revenues for the last three years.

(ii) In accordance with article 18, section 1 of the Central Bank Law, loans to the Government should be repaid back before the end of the same financial year.

(iii) The Bank shall not grant new loans if the Government has overdue arrears.

(2) Liquidity risks of the banks

(i) Through collaterals such deposits and current accounts held with the Bank, letter of credit issued by the Government with one year maturity, Bank of Mongolia bills, discounted promissory notes recognised by the Bank.

(ii) If a bank faces liquidity problems for not more than three months, the bank should work to resolve it on its own and repay credit on time.

(iii) Supervision department of the Bank issues periodic statement on the bank's liquidity position.

(iv) If a loan is overdue for more than 30 days, the ownership of the collateral shall be transferred to the Bank.

No loans were granted to the Government during 2002. The Bank bought government short-term bonds for MNT4.0 billion, which were all repaid on time. Loans being granted to banks are all classified as performing and all are being repaid according to repayment schedule.

Operational Risk

Operational risk is a risk of possible loss to the Bank due to weaknesses or failures in internal audit and reporting.

To avoid any operational risk, the Bank has:

(i) Approved "Bank of Mongolia's Confidentiality Regulation", which governs transfer, safe keeping, and security of confidential information and information technology.

(ii) Approved "Bank of Mongolia Confidentiality Regulation on Computer Systems and Information Technology" to govern procurement, installation and use of information technology equipment.

(iii) Approved a "Regulation on Bank of Mongolia's Security (Alarm) System" that regulates the management of security system of the Bank.

(iv) Conducted internal auditing through its Internal Audit Department according to schedule based on risks and assessed the internal control systems within units.

31. GEOGRAPHICAL CONCENTRATION OF MONETARY ASSETS AND LIABILITIES

The geographical concentration of financial assets and liabilities are as follows:

	Mongolia	Other Countries	Total
	MNT million	MNT million	MNT million
Assets			
Cash on hand	13,771	-	13,771
Monetary gold and precious metals	6,991	56,019	63,010
Investment in foreign securities	-	51,321	51,321
Deposits and placements with			-
foreign financial institutions	-	253,855	253,855
Placements with, and advances to			-
local financial institutions	8,326	-	8,326
Government securities	-	-	-
Advances to the Ministry of Finance			-
and Economy	39,807	-	39,807
Loans to companies	165	-	165
Other assets	178	922	1,100
Property, plant and equipment	13,524	-	13,524
	82,762	362,117	444,879
Liabilities			
Cash in circulation	134,643	-	134,643
Debts issued	60,810	-	60,810
Foreign currency liabilities	130,704	-	130,704
Deposits of Ministry of Finance			-
and Economy	19,091	-	19,091
Deposits of local financial institutions	44,155	-	44,155
Other liabilities	20,767	-	20,767
	410,170	-	410,170
Net position	(327,408)	362,117	34,709

32. ASSETS AND LIABILITIES BY CURRENCY

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 U.S Dollar). These limits also comply with the minimum requirements of the Central Bank of Mongolia. The Bank's exposure to foreign currency exchange rate risk is as follows:

	31 DECEMBER 2002 (MNT million)				
	MNT	USD	SDR	Other currencies	Total
Assets					
Cash on hand	26	5,961	-	7,784	13,771
Monetary gold and precious metals	6,991	-	-	56,019	63,010
Investment in foreign securities	-	51,321	-	-	51,321
Deposits and placements with foreign financial institutions	1,463	250,555	39	1,798	253,855
Placements with, and advances to local financial institutions	8,324	-	-	2	8,326
Government securities	-	-	-	-	-
Advances to the Ministry of Finance	-	-	39,807	-	39,807
Loans to companies	165	-	-	-	165
Other assets	178	922	-	-	1,100
Property, plant and equipment	13,524	-	-	-	13,524
Total assets	30,671	308,759	39,846	65,603	444,879
Liabilities					
Cash in circulation	134,643	-	-	-	134,643
Debts issued	60,810	-	-	-	60,810
Foreign currency liabilities	73,392	4,270	47,609	5,433	130,704
Deposits of Ministry of Finance	15,344	3,707	40	-	19,091
Deposits of local financial institutions	28,351	14,772	-	1,032	44,155
Other liabilities	20,767	-	-	-	20,767
Total liabilities	333,307	22,749	47,649	6,465	410,170
Charter fund	5,000	-	-	-	5,000
Reserve fund	29,709	-	-	-	29,709
Total capital funds	34,709	-	-	-	34,709
Total liabilities and capital funds	368,016	22,749	47,649	6,465	444,879

33. MATURITY OF ASSETS AND LIABILITIES

The maturity of banking assets and liabilities for the year ended 31 December 2002 is as follows:

(MNT million)	Less than 3 months	3 to 6 months	6 months to 1 year	More than 1 year	No Maturity	Total
Assets						
Cash on hand	-	-	-	-	13,771	13,771
Monetary gold and precious metals	25,164	19,845	11,010	-	6,991	63,010
Investment in foreign securities	208	-	31,763	5,625	13,725	51,321
Deposits and placements with foreign financial institutions	178,743	2,250	-	-	72,862	253,855
Placements with, and advances to local financial institutions	-	-	3,631	4,695	-	8,326
Government securities	-	-	-	-	-	-
Advances to the Ministry of Finance	-	-	-	-	39,807	39,807
Loans to companies	-	-	-	-	165	165
Other assets	124	-	-	-	976	1,100
Property, plant and equipment	-	-	-	-	13,524	13,524
Liabilities						
Cash in circulation	-	-	-	-	(134,643)	(134,643)
Debts issued	(60,810)	-	-	-	-	(60,810)
Foreign currency liabilities	-	-	-	(57,312)	(73,392)	(130,704)
Deposits of Ministry of Finance	-	-	-	(1,451)	(17,640)	(19,091)
Deposits of local financial institutions	-	-	-	-	(44,155)	(44,155)
Other liabilities	(84)	-	(57)	(584)	(20,042)	(20,767)
Net position	143,345	22,095	46,347	(49,027)	(128,051)	34,709
Accumulated gap	143,345	165,440	211,787	162,760	34,709	

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As of 31 December 2002, the following methods and assumptions were used by the Bank of Mongolia to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

a) Monetary gold

For this short-term instrument, the carrying amount is calculated based on the year-end fixing rate of the London Bullion Market

b) Securities owned

Securities held by the Bank for investment purposes as at 31 December 2002 are carried at cost, less any provision for permanent diminution in value.

c) Advances to local financial institutions and loans to companies

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

d) Other financial instruments

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

35. SUBSEQUENT EVENT

Subsequent to the year end, the rate of exchange of the MNT to the US dollar has changed to MNT1,140 to one US dollar, as at 31 March 2003. The inflation rate as at 31 December 2002 was 1.6% while the average annual inflation rate to March 2003 is calculated at 2.6%.

36. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation, based on information available for 2002.

37. 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.

MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002 [1]
GDP growth	3.2	1.1	1.0	3.9
GDP , current price, billions of togrog	925.3	1018.9	1115.6	1231.3
Inflation	10.0	8.1	8.0	1.6
Unemployment	4.6	5.0	4.6	3.6
Monetary survey (billions of togrog)				
M2	220.2	258.8	331.1	470.1
Net foreign assets	167.5	201.7	220.2	308.5
Net domestic credit	116.6	84.8	129.3	200.0
M2/GDP (%)	23.8	24.8	29.7	38.2
Loan/GDP (%)	8.4	6.4	12.1	18.8
Deposits/GDP (%)	11.4	12.3	15.7	23.0
Banks' loan	77.5	66.8	135.1	231.4
Non-performing loan	42.1	15.9	10.9	16.5
Banks' interest rate	37.7	30.3	31.8	26.6
Banks' deposit rate	19.8	13.8	13.2	14.0
CBBill's weighted average interest rate	9.9	8.6	8.6	11.4
Balance of payments (millions of U.S. dollar)				
Exports f.o.b	454.2	535.8	523.2	500.9
Imports c.i.f	-567.1	-676.0	-693.1	-752.4
Current account	-51.4	-70.0	-61.7	-132.2
Current account/GDP (%)	-5.2	-5.8	-6.1	-12.0
International reserve	155.9	181.9	206.7	268.2
In weeks of imports	14.3	15.0	15.6	18.6
Togrog rate against U.S. dollar	1070.4	1097.0	1101.3	1124.1
General government budget (billions of togrog)				
Total revenue and grants	266.4	343.2	424.5	466.5
Current revenue	247.8	339.7	415.1	459.4
Total expenditure and net lending	364.6	412.9	470.0	536.5
Current expenditure	250.8	305.0	359.0	407.8
Overall balance	-98.2	-69.7	-45.5	-70.0
Overall balance/GDP	-10.6	-6.8	-4.1	-5.7
Financing				
Foreign, net	93.7	70.5	62.5	75.4
Domestic, net	4.5	-0.8	-17.0	-5.4

[1] Preliminary

MONEY SUPPLY

in millions of togrogs

End-of-period	Currency issued in circulation		Of which			Money (M1)		Of which
	amount	Monthly changes %	Bank's vault	Currency outside banks		amount	Monthly changes %	Non-banks demand deposits (BoM)
				amount	Monthly changes %			
1990 12	742.7		5.7	737.0		4,749.9		3,915.9
1991 12	2,003.0		308.7	1,694.3		7,313.7		27.3
1992 12	2,896.4		1,057.2	1,839.2		7,640.2		
1993 12	10,786.1	13.2	2,035.5	8,750.6	12.0	18,548.4	-8.8	
1994 12	21,804.8	3.1	3,037.6	18,767.2	5.7	32,871.2	-0.4	
1995 12	29,755.7	0.8	4,164.5	25,591.2	2.6	42,636.5	-0.4	
1996 12	46,095.8	11.8	4,391.4	41,704.4	14.4	64,301.6	14.7	
1997 12	56,816.5	3.1	7,048.2	49,768.3	4.1	76,108.9	4.0	
1998 03	47,551.7	-7.0	6,050.8	41,500.9	-9.3	63,773.2	-9.5	
06	61,565.7	2.5	6,170.9	55,394.8	0.0	78,699.1	-1.2	
09	59,996.1	-2.8	5,997.4	53,998.7	-2.3	79,175.0	-1.1	
12	61,754.2	5.7	5,308.4	56,445.8	9.2	82,582.0	9.4	
1999 03	52,625.8	-7.2	4,558.4	48,067.4	-9.0	66,289.8	-7.3	
06	78,453.6	9.3	4,645.8	73,807.8	8.1	92,599.9	5.7	
09	82,990.7	-2.1	6,630.0	76,360.7	-4.5	100,454.2	-1.5	
12	91,567.5	13.8	4,286.2	87,281.3	15.2	114,825.7	14.9	
2000 01	86,345.8	-5.7	8,883.8	77,462.0	-11.3	102,558.6	-10.7	
02	78,615.7	-9.0	5,756.3	72,859.3	-5.9	94,954.8	-7.4	
03	102,316.4	30.1	7,282.1	95,034.2	30.4	116,237.0	22.4	
04	120,253.9	17.5	6,275.0	113,978.8	19.9	135,686.1	16.7	
05	128,197.2	6.6	10,717.6	117,479.7	3.1	139,958.3	3.1	
06	125,507.4	-2.1	6,618.0	118,889.4	1.2	143,684.2	2.7	
07	122,881.7	-2.1	8,508.6	114,373.0	-3.8	138,547.4	-3.6	
08	122,181.8	-0.6	7,202.5	114,979.3	0.5	140,028.7	1.1	
09	120,879.8	-1.1	6,405.4	114,474.4	-0.4	143,562.4	2.5	
10	112,465.2	-7.0	6,346.3	106,119.0	-7.3	133,372.9	-7.1	
11	99,616.7	-11.4	5,565.1	94,051.6	-11.4	120,093.2	-10.0	
12	107,394.4	7.8	6,461.0	100,933.4	7.3	130,775.0	8.9	
2001 01	96,507.1	-10.1	7,624.7	88,882.4	-11.9	116,271.4	-11.1	
02	102,153.8	5.9	7,070.3	95,083.4	7.0	120,030.4	3.2	
03	99,711.6	-2.4	6,000.6	93,711.0	-1.4	123,586.3	3.0	
04	113,535.8	13.9	6,897.4	106,638.4	13.8	138,232.8	11.9	
05	125,092.2	10.2	7,527.1	117,565.1	10.2	150,926.7	9.2	
06	133,397.4	6.6	7,933.6	125,463.8	6.7	155,099.6	2.8	
07	129,263.5	-3.1	9,405.1	119,858.4	-4.5	152,484.5	-1.7	
08	125,800.4	-2.7	8,637.0	117,163.4	-2.2	150,334.6	-1.4	
09	124,288.6	-1.2	7,980.1	116,308.5	-0.7	151,808.6	1.0	
10	117,691.1	-5.3	10,397.6	107,293.4	-7.8	145,791.8	-4.0	
11	112,787.3	-4.2	11,941.5	100,845.8	-6.0	146,029.9	0.2	
12	119,205.8	5.7	10,045.1	109,160.7	8.2	156,155.3	6.9	
2002 01	109,607.2	-8.1	12,220.9	97,386.4	-10.8	141,027.6	-9.7	
02	108,997.7	-0.6	13,693.8	95,303.8	-2.1	138,758.8	-1.6	
03	110,822.1	1.7	9,538.3	101,283.8	6.3	146,932.2	5.9	
04	129,199.1	16.6	13,321.1	115,878.0	14.4	164,200.9	11.8	
05	139,543.7	8.0	12,847.1	126,696.6	9.3	178,267.6	8.6	
06	145,888.0	4.5	14,093.3	131,794.6	4.0	187,708.4	5.3	
07	148,605.2	1.9	12,891.0	135,714.2	3.0	185,360.3	-1.3	
08	152,233.7	2.4	12,276.1	139,957.6	3.1	189,423.1	2.2	
09	144,851.7	-4.8	14,176.1	130,675.6	-6.6	181,084.7	-4.4	
10	136,641.6	-5.7	12,643.8	123,997.7	-5.1	177,714.5	-1.9	
11	133,987.7	-1.9	14,590.4	119,397.2	-3.7	175,576.6	-1.2	
12	134,642.8	0.5	13,859.2	120,783.6	1.2	187,727.8	6.9	

MONEY SUPPLY

continued

End-of-period	Demand deposits (Banks)	Quasi money amount	Quasi money monthly changes %	Of which Time saving deposits	Of which Individuals	Of which Enterprises	Foreign currency deposits	Money (M2) amount	Money (M2) monthly changes %
1990 12	97.0	883.2		726.3	726.3	-	157.0	5,633.1	
1991 12	5,592.1	2,601.1		1,996.9	1,553.3	443.6	604.2	9,914.8	
1992 12	5,789.8	5,412.1		4,430.2	2,985.7	1,444.5	981.9	13,052.3	
1993 12	9,757.2	24,215.8	10.6	10,103.1	7,969.6	2,133.5	14,112.7	42,764.2	1.2
1994 12	14,104.0	43,905.8	-2.6	28,937.5	25,287.3	3,650.2	14,968.3	76,777.0	-1.7
1995 12	17,045.3	59,408.1	-4.7	38,529.1	36,602.7	1,926.4	20,879.0	102,044.6	-2.9
12	22,597.2	64,093.7	-4.0	35,164.2	33,819.1	1,345.1	28,929.5	128,395.3	4.5
12	26,340.6	93,956.6	13.0	44,673.8	42,892.7	1,781.1	49,282.8	170,065.5	8.8
1998 03	22,272.3	89,854.6	-1.8	49,870.4	43,718.6	6,151.8	39,984.2	153,627.8	-5.1
06	23,304.3	81,527.3	-6.1	43,492.4	40,643.1	2,849.3	38,034.9	160,226.4	-3.8
09	25,176.3	86,818.2	2.0	42,212.1	39,674.0	2,538.1	44,606.1	165,993.2	0.5
12	26,136.2	84,667.6	-0.5	44,840.1	42,044.5	2,795.6	39,827.5	167,249.6	4.2
1999 03	18,222.4	87,392.9	-3.3	42,874.2	40,646.1	2,228.1	44,518.7	153,682.7	-5.1
06	18,792.1	92,035.4	4.7	41,158.2	38,447.7	2,710.5	50,877.2	184,635.3	5.2
09	24,093.5	98,485.8	3.8	44,071.8	41,877.7	2,194.1	54,414.0	198,940.0	1.1
12	27,544.4	105,341.3	-1.6	45,052.3	43,257.9	1,794.4	60,289.1	220,167.0	6.3
2000 01	25,096.6	108,771.2	3.3	46,519.6	44,361.8	2,157.8	62,251.5	211,329.8	-4.0
02	22,095.5	112,587.0	3.5	47,028.5	45,308.6	1,719.9	65,558.6	207,541.8	-1.8
03	21,202.8	106,197.0	-5.7	47,447.8	46,009.3	1,438.5	58,749.3	222,434.0	7.2
04	21,707.3	98,901.1	-6.9	46,338.0	45,415.9	922.1	52,563.1	234,587.3	5.5
05	22,478.6	103,030.7	4.2	48,032.6	46,044.8	1,987.8	54,998.2	242,989.0	3.6
06	24,794.8	111,573.9	8.3	49,036.2	46,967.5	2,068.8	62,537.7	255,258.1	5.0
07	24,174.3	113,293.9	1.5	51,062.0	48,989.2	2,072.8	62,231.9	251,841.3	-1.3
08	25,049.4	116,835.5	3.1	51,775.2	49,557.2	2,218.0	65,060.3	256,864.2	2.0
09	29,088.0	120,927.8	3.5	54,046.5	51,485.1	2,561.4	66,881.3	264,490.2	3.0
10	27,254.0	124,156.1	2.7	57,673.5	53,820.4	3,853.1	66,482.6	257,529.0	-2.6
11	26,041.6	125,454.6	1.0	58,232.5	53,409.9	4,822.7	67,222.1	245,547.9	-4.7
12	29,841.6	128,067.7	2.1	59,004.3	54,125.9	4,878.4	69,063.4	258,842.6	5.4
2001 01	27,389.0	133,729.3	4.4	60,985.6	55,659.6	5,326.0	72,743.7	250,000.7	-3.4
02	24,947.0	138,117.1	3.3	64,050.7	58,240.5	5,810.2	74,066.5	258,147.6	3.3
03	29,875.3	146,954.5	6.4	66,993.0	61,110.6	5,882.4	79,961.5	270,540.8	4.8
04	31,594.4	144,512.7	-1.7	69,396.6	63,557.6	5,839.0	75,116.1	282,745.5	4.5
05	33,361.6	148,965.0	3.1	69,582.0	63,952.2	5,629.8	79,383.1	299,891.7	6.1
06	29,635.9	158,846.5	6.6	72,344.0	63,382.0	8,962.1	86,502.5	313,946.1	4.7
07	32,626.1	158,491.3	-0.2	75,589.2	66,533.6	9,055.5	82,902.1	310,975.8	-0.9
08	33,171.2	170,753.7	7.7	78,608.2	68,328.2	10,280.0	92,145.5	321,088.3	3.3
09	35,500.2	165,619.9	-3.0	81,629.0	70,893.8	10,735.3	83,990.8	317,428.5	-1.1
10	38,498.4	170,310.5	2.8	85,431.2	73,854.7	11,576.4	84,879.4	316,102.4	-0.4
11	45,184.1	169,834.6	-0.3	83,664.9	75,376.6	8,288.3	86,169.7	315,864.5	-0.1
12	46,994.6	174,908.9	3.0	87,590.4	79,321.6	8,268.7	87,318.6	331,064.3	4.8
2002 01	43,641.3	183,708.4	5.0	93,203.5	82,549.2	10,654.3	90,504.9	324,736.0	-1.9
02	43,455.0	193,578.4	5.4	101,346.6	87,704.9	13,641.7	92,231.8	332,337.3	2.3
03	45,648.4	198,939.7	2.8	102,964.3	92,059.3	10,905.0	95,975.4	345,871.9	4.1
04	48,322.9	205,133.8	3.1	108,110.1	85,884.7	22,225.4	97,023.7	369,334.7	6.8
05	51,571.0	209,979.4	2.4	111,538.6	100,046.1	11,492.4	98,440.9	388,247.1	5.1
06	55,913.8	213,270.1	1.6	113,054.1	103,517.4	9,536.7	100,216.0	400,978.5	3.3
07	49,646.1	236,247.4	10.8	124,332.7	111,429.5	12,903.1	111,914.7	421,607.7	5.1
08	49,465.5	241,304.5	2.1	126,626.7	113,075.9	13,550.7	114,677.8	430,727.6	2.2
09	50,409.0	256,280.1	6.2	134,245.4	121,098.3	13,147.1	122,034.7	437,364.8	1.5
10	53,716.8	261,900.5	2.2	137,123.2	127,012.9	10,110.4	124,777.2	439,615.0	0.5
11	56,179.4	271,982.8	3.8	141,912.7	131,679.9	10,232.7	130,070.1	447,559.4	1.8
12	66,944.1	282,397.8	3.8	147,211.7	137,182.7	10,029.0	135,186.1	470,125.6	5.0

CONSUMER PRICE INDEX

in percent

End-of-period	Food items	Of which						
		Meat and meat products	Milk, dairy products	Wheat products	Sugar, candy, tea, fruits	Potatoes and vegetables	Other food items	Soft drinks, cigarettes
1991 01 16	100.0	100.0	100.0	100.0			100.0	100.0
1991 12	134.4	136.4	156.3	124.0			131.4	126.9
1992 12	755.4	468.3	884.2	978.4			828.9	800.1
1993 12	2,247.0	1,744.3	2,153.2	2,906.7			2,736.5	1,424.5
1994 12	3,565.3	2,723.1	3,658.8	4,147.5			4,681.4	1,855.4
				1995.12=100				
1995 12	58.7	18.4	5.1	17.2			4.9	4.5
1996 12	78.2	19.5	7.1	27.0			7.5	6.3
1997 12	87.0	21.2	9.6	28.1			8.7	7.8
1998 12	87.7	22.0	10.0	27.6			10.1	7.7
1999 12	95.5	25.0	10.0	28.8			10.6	8.5
2000 01	102.0	29.8	10.5	29.1			10.6	8.5
02	108.5	34.1	11.0	29.2			10.9	8.6
03	110.4	35.5	11.1	29.3			10.8	9.0
04	134.8	48.3	11.1	29.3			10.6	9.0
05	143.5	55.4	9.6	29.3			10.7	9.1
06	143.7	55.4	8.3	29.3			10.7	9.1
07	132.6	45.1	8.1	29.4			10.7	9.1
08	115.2	33.0	7.8	29.4			10.7	9.3
09	111.4	30.9	8.6	29.4			10.4	9.3
10	107.1	26.9	9.7	29.4			10.5	9.3
11	108.5	27.8	9.9	29.6			10.6	9.4
12	109.6	27.7	10.4	29.6			10.5	9.4
12	49.7	14.6	4.5	14.5	4.1	4.8	2.9	4.2
				2000.12=100				
2001 01	55.4	19.5	5.4	12.9	4.7	5.3	3.6	4.1
02	57.9	21.2	5.8	12.9	4.7	5.6	3.7	4.1
03	62.0	24.8	5.9	13.0	4.7	6.0	3.7	4.1
04	64.4	27.2	5.6	13.0	4.8	6.2	3.7	4.1
05	68.7	32.1	5.1	13.0	4.8	6.0	3.6	4.2
06	63.7	28.5	3.8	12.9	4.8	6.0	3.6	4.2
07	60.6	24.8	3.5	12.9	4.6	7.1	3.6	4.2
08	55.9	20.6	3.6	13.0	4.8	6.2	3.7	4.2
09	52.1	18.4	3.8	13.1	4.7	4.5	3.6	4.2
10	51.8	16.7	4.4	13.3	4.7	4.7	3.9	4.2
11	52.5	16.9	4.6	13.4	4.7	4.9	3.8	4.3
12	55.7	19.6	5.0	13.4	4.7	5.3	3.8	4.3
2002 01	56.2	19.7	5.1	13.1	4.7	5.5	3.7	4.3
02	57.9	21.2	5.1	13.2	4.7	5.6	3.7	4.4
03	57.1	21.1	5.0	12.8	4.7	5.5	3.7	4.4
04	59.2	23.4	4.8	12.7	4.8	5.7	3.6	4.4
05	61.1	25.4	4.4	12.5	4.7	6.3	3.6	4.3
06	60.8	25.1	3.5	12.3	4.9	7.2	3.6	4.2
07	58.8	23.7	3.3	12.1	4.7	7.2	3.7	4.2
08	55.2	21.2	3.3	12.0	4.6	6.4	3.7	4.1
09	53.3	19.8	3.5	12.0	4.6	5.7	3.7	4.2
10	52.9	18.7	4.2	12.1	4.5	5.6	3.7	4.3
11	53.5	18.6	4.6	12.1	4.5	5.8	3.7	4.3
12	55.0	19.6	5.0	12.1	4.5	6.1	3.7	4.3

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

continued

End-of-period	Clothes, shoes	Of which						
		Cotton, fabrics	Men's clothing	Women's clothing	Adult underwear	Children's clothing	Shoes	Utilities
1991 01 16	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991 12	192.4	148.4	174.5	229.3	173.5	100.0	236.1	115.5
1992 12	679.1	676.3	347.3	541.2	397.1	440.9	965.4	245.8
1993 12	1,304.3	1,161.6	650.4	896.4	743.6	1,404.4	1,782.9	1,068.3
1994 12	2,363.1	1,957.5	1,259.4	2,110.3	972.1	2,126.9	3,377.3	1,595.7
					1995.12=100			
1995 12	10.3	0.4	1.5	3.4		1.0	4.0	10.4
1996 12	15.4	0.6	2.3	4.5		1.8	6.2	17.9
1997 12	20.6	0.7	2.9	6.5		2.3	8.2	27.0
1998 12	22.8	0.6	3.2	6.9		2.4	9.4	29.5
1999 12	23.9	0.6	3.1	7.1		2.4	10.2	32.1
2000 01	23.4	0.6	3.1	7.0		2.4	9.9	32.7
02	23.2	0.6	3.1	6.8		2.4	9.9	31.5
03	23.1	0.6	3.1	6.8		2.4	9.8	31.6
04	23.1	0.6	3.0	6.8		2.4	9.8	31.6
05	23.1	0.6	3.1	6.8		2.5	9.8	31.6
06	23.1	0.6	3.1	6.8		2.4	9.8	31.5
07	23.1	0.6	3.1	6.8		2.4	9.8	34.2
08	23.2	0.6	3.1	6.8		2.5	9.8	34.4
09	23.2	0.6	3.1	6.8		2.4	9.8	34.6
10	23.5	0.6	3.1	7.0		2.4	9.9	38.4
11	23.8	0.6	3.1	6.9		2.5	10.2	38.9
12	23.9	0.6	3.2	7.0		2.5	10.2	42.3
	10.6	0.3	2.7	3.0		0.9	3.8	13.1
					2000.12=100			
2001 01	13.0	0.3	3.4	4.4		0.5	4.4	11.7
02	13.0	0.3	3.4	4.4		0.5	4.4	11.5
03	13.0	0.3	3.4	4.4		0.5	4.4	11.4
04	13.1	0.3	3.4	4.4		0.5	4.4	11.5
05	13.1	0.3	3.4	4.4		0.5	4.5	11.4
06	13.1	0.3	3.4	4.4		0.5	4.5	11.4
07	13.2	0.3	3.5	4.4		0.5	4.5	11.4
08	13.2	0.3	3.5	4.5		0.5	4.5	11.4
09	13.5	0.3	3.6	4.5		0.5	4.5	11.6
10	13.9	0.3	3.8	4.7		0.5	4.6	12.0
11	13.9	0.3	3.8	4.7		0.5	4.6	13.1
12	13.7	0.3	3.8	4.6		0.5	4.5	13.1
2002 01	13.7	0.3	3.8	4.5		0.5	4.6	13.1
02	13.7	0.3	3.8	4.5		0.5	4.5	12.7
03	13.4	0.3	3.7	4.4		0.5	4.4	12.5
04	13.3	0.3	3.7	4.4		0.5	4.4	12.5
05	13.3	0.3	3.6	4.4		0.5	4.4	12.5
06	13.3	0.3	3.6	4.4		0.5	4.4	12.5
07	13.2	0.3	3.6	4.3		0.5	4.4	13.0
08	13.2	0.3	3.6	4.3		0.5	4.4	13.3
09	13.2	0.3	3.6	4.3		0.5	4.4	13.2
10	13.4	0.3	3.8	4.3		0.5	4.4	13.5
11	14.1	0.3	3.8	4.6		0.6	4.8	13.6
12	14.5	0.3	3.8	4.7		0.6	5.1	13.6

continued

End-of-period	Household goods	Medicine	Transport & communica-tion	Articles for cultural needs	Other goods & service	General CPI	Monthly changes %	Changes from the beginning of year	Annual changes
1991 01 16	100.0	100.0	100.0	100.0	100.0	100.0			
1991 12	209.6	100.0	137.3	277.3	152.3	152.7	5.1	52.7	
1992 12	795.8	196.7	535.3	581.0	430.2	649.8	11.0	325.5	
1993 12	2,087.2	1,933.9	1,673.3	2,154.8	1,483.8	1,838.7	2.5	183.0	
1994 12	3,247.2	1,933.9	3,221.1	4,427.9	2,904.7	3,057.8	2.1	66.3	
						1995.12=100			
1995 12	3.9	2.1	7.6	3.6	3.5	100.0	2.1	53.1	
1996 12	5.4	3.0	13.6	5.7	5.3	144.6	3.2	44.6	
1997 12	6.6	3.8	15.0	8.2	6.4	174.2	0.9	20.5	20.5
1998 12	6.1	3.9	17.8	9.8	7.4	184.7	2.1	6.0	6.0
1999 12	6.5	4.6	23.3	11.3	7.9	203.2	1.7	10.0	10.0
2000 01	6.5	4.6	23.3	11.3	8.3	210.1	3.4	3.4	13.7
02	6.5	4.6	23.1	11.3	8.3	215.1	2.4	5.9	12.3
03	6.5	4.6	23.1	11.5	8.3	217.1	0.9	6.9	11.6
04	6.5	4.6	23.1	11.5	8.3	230.5	6.1	13.5	14.1
05	6.5	4.6	23.0	11.5	8.2	238.4	3.4	17.4	15.5
06	6.5	4.6	23.0	11.5	8.2	238.4	0.0	17.4	15.4
07	6.3	4.6	24.0	11.5	8.2	231.7	-2.8	14.1	13.5
08	6.4	4.6	24.1	11.6	8.2	216.1	-6.7	6.4	8.0
09	6.5	4.6	24.1	11.6	8.3	213.0	-1.4	4.9	9.6
10	6.5	4.6	24.1	11.8	8.3	213.1	0.1	4.9	9.3
11	6.5	4.6	24.1	11.8	8.2	215.0	0.9	5.9	7.6
12	6.6	4.6	24.1	11.8	8.2	219.6	2.1	8.1	8.1
	4.2	1.9	8.5	8.1	4.0	100.0	2.1	8.1	
						2000.12=100			
2001 01	3.2	1.4	9.9	7.3	3.7	105.7	5.7	5.7	10.4
02	3.2	1.4	9.9	7.3	3.7	107.9	2.1	8.0	10.1
03	3.3	1.4	9.9	7.3	3.8	112.0	3.8	12.0	13.2
04	3.3	1.4	9.8	7.3	3.8	114.5	2.2	14.5	9.0
05	3.2	1.4	9.7	7.2	3.8	118.6	3.6	18.6	9.2
06	3.2	1.4	9.8	7.2	3.8	113.5	-4.3	13.5	4.5
07	3.2	1.4	9.8	7.2	3.8	110.5	-2.6	10.6	4.7
08	3.2	1.4	9.8	7.2	3.8	105.9	-4.2	5.9	7.6
09	3.2	1.4	9.8	7.2	3.8	102.6	-3.1	2.6	5.8
10	3.3	1.4	9.9	7.2	3.8	103.2	0.6	3.2	6.3
11	3.3	1.4	9.9	7.2	3.8	105.1	1.8	5.1	7.4
12	3.2	1.4	9.9	7.2	3.8	108.0	2.8	8.0	8.0
2002 01	3.3	1.4	10.2	7.1	3.8	108.7	0.6	0.6	2.8
02	3.3	1.4	10.1	7.1	3.8	110.0	1.2	1.8	1.9
03	3.2	1.4	10.1	7.2	3.9	108.7	-1.2	0.7	-2.9
04	3.2	1.4	10.0	7.1	3.8	110.6	1.7	2.4	-3.4
05	3.2	1.4	10.0	7.1	3.9	112.6	1.8	4.2	-5.1
06	3.2	1.4	10.1	7.1	3.9	112.2	-0.3	3.9	-1.1
07	3.3	1.5	10.1	7.2	3.9	110.8	-1.3	2.6	0.2
08	3.3	1.5	10.0	7.1	3.9	107.4	-3.0	-0.5	1.5
09	3.3	1.5	10.0	7.4	3.9	105.9	-1.4	-2.0	3.2
10	3.3	1.5	10.2	7.5	4.0	106.2	0.3	-1.7	2.9
11	3.3	1.5	10.2	7.5	4.1	107.8	1.5	-0.3	2.6
12	3.3	1.5	10.3	7.5	4.1	109.8	1.9	1.6	1.6

MONETARY SURVEY

in millions of togrogs

End-of-period	Net foreign assets	Domestic credit (net)	Of which						Total assets
			Central Government	Public enterprises	Private sector	Principal in arrears	Substandard doubtful, loss loans	Share & promissory note	
1991 12	495.4	10,971.2	-1,883.7	9,779.6	3,075.3		0.0	0.0	11,466.6
1992 12	-27.0	16,078.2	-3,051.7	12,204.2	6,925.7		0.0	0.0	16,051.2
1993 12	23,395.7	24,460.3	-7,143.4	21,744.4	9,859.3		0.0	0.0	47,856.0
1994 12	29,699.3	49,190.3	-3,773.1	12,193.3	40,638.0		0.0	124.3	78,889.6
1995 12	51,709.7	45,494.7	-17,227.8	10,883.3	51,653.5		0.0	124.3	97,204.4
1996 12	73,733.6	90,240.4	19,920.3	14,520.3	22,851.9	8,057.8	24,890.1	0.0	163,974.0
1997 12	135,437.2	67,635.4	13,352.1	11,713.0	28,112.6	4,553.9	9,903.8	0.0	203,072.6
1998 12	96,557.5	136,062.0	41,460.0	18,295.6	43,667.5	6,051.9	26,587.0	0.0	232,619.5
1999 12	167,541.5	116,635.6	34,555.7	8,564.5	31,408.6	2,925.7	39,181.0	0.0	284,177.1
2000 01	161,135.7	124,749.6	39,224.8	9,653.2	33,919.0	3,078.7	38,873.9	0.0	285,885.3
02	159,701.5	100,441.6	41,022.8	11,040.9	31,069.3	1,106.8	16,201.8	0.0	260,143.1
03	189,044.2	86,994.9	29,548.9	9,335.4	31,494.6	1,015.6	15,600.4	0.0	276,039.0
04	188,386.4	86,742.4	31,373.8	5,369.6	33,971.2	900.9	15,126.9	0.0	275,128.9
05	180,074.6	93,903.2	34,867.1	7,242.0	36,082.2	934.8	14,777.0	0.0	273,977.7
06	196,630.4	94,375.8	36,392.3	6,899.0	34,717.5	1,779.2	14,587.8	0.0	291,006.1
07	183,110.8	100,119.7	40,893.5	7,109.4	34,905.4	2,012.5	15,198.8	0.0	283,230.4
08	206,754.0	100,978.0	38,260.9	7,509.4	37,940.9	2,398.8	14,868.0	0.0	307,732.0
09	220,197.4	95,204.7	34,516.0	6,830.3	36,501.3	2,588.1	14,769.1	0.0	315,402.1
10	211,388.4	92,934.3	34,561.8	5,707.5	36,311.6	1,917.1	14,436.3	0.0	304,322.7
11	218,647.6	95,864.8	32,310.4	4,841.5	42,465.1	1,926.1	14,321.6	0.0	314,512.4
12	205,971.8	84,831.1	17,171.2	6,281.5	45,482.9	1,281.8	14,613.8	0.0	290,802.9
2001 01	187,939.5	96,095.0	21,698.0	6,201.3	51,727.3	1,845.7	14,622.7		284,034.5
02	181,570.0	110,399.0	31,630.7	5,635.8	57,035.9	2,010.3	14,086.3		291,969.0
03	199,864.8	107,673.8	26,210.3	5,353.6	60,415.9	1,704.0	13,989.9		307,538.6
04	200,525.9	114,597.1	27,809.4	9,323.1	62,171.6	1,729.4	13,563.7		315,123.0
05	195,754.0	126,810.1	29,216.2	8,769.8	73,588.1	1,626.9	13,609.1		322,564.1
06	222,366.1	107,107.5	9,575.3	8,915.6	76,509.5	1,420.0	10,687.1		329,473.6
07	213,219.6	106,647.1	8,425.7	9,186.4	76,332.7	1,952.3	10,750.0		319,866.7
08	220,712.6	117,241.1	13,828.3	9,410.3	81,747.7	1,786.4	10,468.4		337,953.7
09	222,664.5	116,362.0	14,208.5	8,859.0	81,368.3	1,738.6	10,187.7		339,026.5
10	224,897.1	109,575.8	-7,357.8	7,951.0	97,304.5	1,936.8	9,741.2		334,472.9
11	215,398.9	119,640.1	-9,723.0	10,998.9	106,309.7	2,218.1	9,836.4		335,039.1
12	222,369.7	129,259.5	-6,829.1	10,552.3	114,670.4	1,798.3	9,067.6		351,629.2
2002 01	202,909.8	142,387.8	-275.5	9,663.8	122,402.5	1,849.3	8,747.6		345,297.6
02	211,910.0	148,558.8	1,683.3	11,325.2	124,274.7	2,786.3	8,489.3		360,468.8
03	219,898.3	150,435.6	-1,724.8	10,637.1	127,431.4	3,526.4	10,565.4		370,333.9
04	220,753.8	166,629.7	1,563.0	10,332.0	141,496.3	2,748.1	10,490.3		387,383.6
05	224,544.0	179,416.9	1,543.2	11,345.6	152,716.7	3,461.9	10,349.5		403,960.9
06	223,696.2	195,587.4	3,529.6	12,826.2	163,173.1	5,437.4	10,621.1		419,283.7
07	247,989.9	191,091.1	-2,410.0	13,427.7	163,957.3	5,472.3	10,643.8		439,081.0
08	242,746.7	195,909.8	-2,753.9	13,314.8	169,146.4	4,832.1	11,370.4		438,656.5
09	276,385.3	177,337.3	-20,282.6	13,659.5	168,246.7	4,263.0	11,450.7		453,722.6
10	281,081.3	179,515.3	-22,689.6	14,060.7	171,416.5	4,293.7	12,434.0		460,596.6
11	286,248.8	193,978.2	-18,567.5	12,441.6	183,806.6	4,294.5	12,003.1		480,227.0
12	308,507.4	200,027.4	-32,439.3	12,335.2	203,567.2	4,819.4	11,744.9		508,534.8

continued

End-of-period	Money	Quasi money	Long-term foreign liabilities	Other items (net)	Total liabilities
1991 12	7,313.7	2,601.2	1,981.7	-430.0	11,466.6
1992 12	7,640.2	5,412.1	3,809.5	-810.6	16,051.2
1993 12	18,548.4	24,215.8	9,094.4	-4,002.6	47,856.0
1994 12	32,871.2	43,905.8	7,452.1	-5,339.5	78,889.6
1995 12	42,636.5	59,408.2	14,176.2	-19,016.5	97,204.4
1996 12	64,301.6	64,093.7	11,121.4	24,457.3	163,974.0
1997 12	76,108.9	93,956.6	3,659.2	29,347.9	203,072.6
1998 12	82,582.0	84,667.6	12,800.4	52,569.5	232,619.5
1999 12	114,825.7	105,341.3	5,682.5	58,327.5	284,177.1
2000 01	102558.6	108771.2	5737.4	68818.2	285885.3
02	94954.8	112587.0	5458.6	47142.7	260143.1
03	116237.0	106197.0	3242.5	50362.5	276039.0
04	135686.1	98901.1	2951.6	37590.0	275128.9
05	139958.3	103030.7	2950.3	28038.4	273977.7
06	143684.2	111573.9	3599.2	32148.9	291006.1
07	138547.4	113293.9	3639.4	27749.7	283230.4
08	140028.7	116835.5	3800.5	47067.3	307732.0
09	143562.4	120927.8	3764.3	47147.6	315402.1
10	133372.9	124156.1	3940.2	42853.5	304322.7
11	120093.2	125454.6	3976.2	64988.3	314512.4
12	130775.0	128067.7	4173.2	27787.0	290802.9
2001 01	116,271.4	133,729.3	4,331.2	29,702.6	284,034.5
02	120,030.4	138,117.1	4,276.1	29,545.3	291,969.0
03	123,586.3	146,954.5	4,226.3	32,771.5	307,538.6
04	138,232.8	144,512.7	4,338.0	28,039.5	315,123.0
05	150,926.7	148,965.0	5,250.4	17,422.0	322,564.1
06	155,099.6	158,846.5	5,370.7	10,156.8	329,473.6
07	152,484.5	158,491.3	5,447.9	3,443.0	319,866.7
08	150,334.6	170,753.7	5,632.7	11,232.7	337,953.7
09	151,808.6	165,619.9	5,756.8	15,841.2	339,026.5
10	145,791.8	170,310.5	5,780.5	12,590.0	334,472.9
11	146,029.9	169,834.6	6,244.7	12,929.8	335,039.1
12	156,155.3	174,908.9	6,603.8	13,961.2	351,629.2
2002 01	141,027.6	183,708.4	7,493.7	13,067.9	345,297.6
02	138,758.8	193,578.4	8,036.7	20,094.9	360,468.8
03	146,932.2	198,939.7	8,345.9	16,116.1	370,333.9
04	164,200.9	205,133.8	8,471.5	9,577.4	387,383.6
05	178,267.6	209,979.4	8,685.9	7,027.9	403,960.9
06	187,708.4	213,270.1	8,890.5	9,414.7	419,283.7
07	185,360.3	236,247.4	9,621.9	7,851.4	439,081.0
08	189,423.1	241,304.5	9,957.3	-2,028.4	438,656.5
09	181,084.7	256,280.2	10,606.0	5,751.7	453,722.6
10	177,714.5	261,900.5	10,100.0	10,881.6	460,596.6
11	175,576.6	271,982.8	11,343.1	21,324.5	480,227.0
12	187,727.8	282,397.8	11,718.8	26,690.4	508,534.8

DEPOSIT INTEREST RATE

in percent

End-of-period	Deposit rates							
	Current account		Demand deposit	Time deposit				
				Domestic currency				Foreign currency
	Domestic currency	Foreign currency		1 year	1-3 years	3-5 years	More than 5	1-3 years
1993 12	2.0		24-100	70-153	125-151.8			10-72
1994 12	2.0		10-63.8	50-101.2				6-72
1995 12	2.0		12.0-42.6	12.5-101.2				6.0-42.6
1996 12	2.0		12.0-34.5	12.7-60.1	26.8			3.6-42.6
1997 12	2.0		3.6-34.5	6.2-69.6	36.0-42.6			2.4-42.6
1998 12	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0			1.2-24.0
1999 01	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0			1.2-24.0
02	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0			1.2-24.0
03	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0			1.2-24.0
04	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0			1.2-24.0
05	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0			1.2-24.0
06	0.8-6.0	1.0-3.6	3.6-19.6	6.0-42.58	24.0-30.0			1.2-24.0
07	0.8-6.0	1.0-3.6	3.6-19.6	9.6-42.58	24.0-30.0			1.2-24.0
08	3.0-6.0	1.0-3.6	3.6-19.6	9.6-42.58	24.0-30.0			1.2-24.0
09	3.0-6.0	1.0-3.6	3.6-19.6	4.8-42.58	24.0-30.0			1.8-24.0
10	3.0-6.0	1.0-3.6	3.0-18.0	9.6-30.0				3.6-14.4
11	3.0-6.0	1.0-3.6	3.0-14.4	9.6-30.0				3.6-14.4
12	3.0-6.0	1.0-3.6	3.0-13.2	9.6-30.0				3.6-14.4
2000 01	3.0-6.0	1.0-3.6	3.6-13.2	9.6-30.0				3.6-14.4
02	3.0-6.0	1.0-3.6	3.6-13.2	9.6-30.0				3.6-14.4
03	3.0-6.0	1.0-3.6	3.6-13.2	9.6-30.0				3.6-14.4
04	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				2.4-14.4
05	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				2.4-14.4
06	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				2.4-14.4
07	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				2.4-14.4
08	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				1.2-14.4
09	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0				1.2-12.0
10	3.0-6.0	1.0-3.6	1.2-13.2	3.6-24.0				1.2-12.0
11	2.4-6.0	1.0-3.6	1.2-13.2	3.6-24.0				1.2-12.0
12	2.4-6.0	1.0-3.6	1.2-13.2	3.6-24.0				1.2-12.0
2001 01	2.4-6.0	1.0-3.6	1.2-9.6	2.4-24.0				1.2-12.0
02	2.4-6.0	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
03	2.4-6.0	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
04	2.4-4.8	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
05	2.4-4.8	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
06	2.4-4.8	1.0-3.6	1.2-9.6	2.4-25.2				1.0-18.0
07	2.4-4.8	1.0-3.6	1.2-9.6	2.4-24.0				1.0-12.0
08	2.4-4.8	1.0-3.6	1.2-9.6	2.4-25.2				1.0-18.0
09	0.3-4.8	0.3-3.6	1.2-9.6	2.4-24.0				1.0-14.4
10	0.3-4.8	0.3-3.6	1.2-9.6	2.4-36.0				1.0-12.0
11	0.0-4.8	0.3-3.6	1.2-9.6	2.4-36.0				1.0-12.0
12	0.0-5.1	0.3-4.2	1.2-9.6	2.4-24.0				1.0-13.2
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

LOAN INTEREST RATE

in percent

End-of-period	Loan rates					
	Bank of Mongolia	Commercial loans				
		Short-term		Medium & long-term		
		Domestic currency	Foreign currency	1-3 years	3-5 years	more than 5
1993 12	120-300					
1994 12	72-264					
1995 12	72-150					
1996 12	72-109					
1997 12	45.0-50.0					
1998 12	23.3	45.8	34.2			
1999 01	21.2	49.9	39.5			
02	17.5	42.6	34.6			
03	23.3	47.2	37.2			
04	23.7	44.6	26.4			
05	21.2	47.6	34.2			
06	17.5	42.2	34.1			
07	17.5	42.6	34.4			
08	17.5	46.9	41.2			
09	17.5	42.4	30.6			
10	13.3	44.2	31.8			
11	11.6	39.1	34.4			
12	11.4	38.8	36.5			
2000 01	12.3	33.4	33.1			
02	11.3	45.0	26.5			
03	11.2	36.5	31.7			
04	12.8	37.0	29.7			
05	16.1	37.3	26.7			
06	15.6	38.9	27.1			
07	15.6	32.2	30.9			
08	14.6	35.3	23.5			
09	10.9	42.7	29.3			
10	11.1	37.7	31.6			
11	6.9	32.7	26.6			
12	8.6	34.7	25.8			
2001 01	4.76	38.8	23.7			
02	11.2	40.1	27.2			
03	11.2	38	21.5			
04	11.7	37.9	21.6			
05	12.5	37.6	24.2			
06	12.49	34.5	22.8			
07	11.08	33.9	20.7			
08	10.2	35	23.5			
09	9.9	37.4	21.4			
10	6.73	36.2	25.5			
11	6.51	37.4	23.3			
12	8.61	41.4	22.2			
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			

MARKET RATES

Togrog exchange rate against foreign currencies

End-of-period	USD		EUR	DEM	ITL	FRF	ATS	BEF	ECU	JPY	CHF	GBP	HKD
	end of period	monthly average											
1993 12	396.51	395.03							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 01	950.00	916.45	1099.96							8.30	687.16	1572.96	122.67
02	985.00	975.16	1087.10							8.07	681.52	1596.19	127.11
03	1041.24	1019.63	1120.58							8.67	703.30	1689.93	134.37
04	1014.43	1024.93	1074.94							8.53	671.36	1638.56	130.89
05	1005.00	1004.40	1050.43							8.28	659.60	1610.96	129.59
06	1014.73	1008.06	1056.64							8.36	660.33	1608.35	130.81
07	1018.18	1015.01	1073.16							8.72	668.34	1611.83	131.19
08	1046.96	1035.24	1096.80							9.43	684.71	1662.89	134.84
09	1058.62	1052.28	1104.51							10.04	689.30	1737.09	136.29
10	1070.46	1065.69	1142.45							10.10	713.97	1774.07	137.76
11	1070.00	1074.16	1087.12							10.34	678.35	1719.01	137.69
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
02	1092.75	1089.17	1061.06							9.97	660.27	1737.85	140.41
03	1090.00	1091.83	1065.15							10.20	670.60	1736.04	140.01
04	1035.00	1059.63	970.21							9.77	617.39	1630.95	132.88
05	1032.70	1024.68	963.15							9.65	615.07	1538.26	132.53
06	1065.00	1053.57	997.59							10.18	643.00	1598.62	136.69
07	1075.37	1071.32	993.05							9.82	641.57	1616.66	137.90
08	1082.54	1078.78	976.99							10.15	633.06	1592.58	138.79
09	1085.62	1084.14	957.25							10.05	628.98	1583.43	139.21
10	1096.00	1089.74	920.26							10.07	605.17	1591.06	140.52
11	1097.00	1096.61	919.67							9.91	604.17	1536.07	140.83
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
02	1098.00	1098.99	993.42							9.43	648.28	1588.75	140.78
03	1097.00	1098.00	977.04							8.93	623.40	1563.83	140.66
04	1091.00	1092.95	985.34							8.80	640.71	1573.33	139.88
05	1095.00	1092.67	943.18							9.10	617.67	1548.06	140.39
06	1097.00	1096.00	936.51							8.82	616.15	1551.05	140.65
07	1098.00	1096.67	964.37							8.87	638.78	1567.23	140.77
08	1099.00	1098.43	1006.46							9.18	662.47	1591.08	140.90
09	1099.00	1099.50	1013.20							9.40	689.70	1607.60	140.90
10	1100.00	1099.57	982.90							9.00	666.80	1574.80	141.00
11	1100.00	1100.00	966.20							8.87	661.40	1545.60	141.00
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

continued

End-of-period	RUR	CNY	KRW	CAD	AUD	THB	IDR	MYR	SGD	XAU	XAG	SDR
1993 12				298.28								549.62
1994 12	0.12	48.60		295.08								602.19
1995 12	0.10	56.94		347.61								708.53
1996 12	0.12	83.57	0.82	506.86								999.35
1997 12	0.14	98.21	0.49	567.27								1095.06
1998 12	42.65	108.96	0.74	582.16	547.97	24.73	0.11	237.68	543.18	257761.60	4446.86	1271.24
1999 01	40.77	100.00	0.80	625.45	601.40	25.57	0.10	250.33	563.55	272032.50	4849.75	1331.50
02	43.58	118.98	0.81	661.43	629.07	26.05	0.11	259.55	574.01	282842.75	6104.04	1352.72
03	39.74	125.75	0.85	688.15	660.30	27.63	0.12	274.02	599.97	291859.57	5692.56	1417.69
04	41.36	122.54	0.86	687.24	662.98	26.98	0.12	267.31	594.17	287337.30	5530.57	1372.80
05	40.67	121.40	0.85	684.67	652.80	27.08	0.12	264.82	581.26	271953.00	5168.10	1351.56
06	41.50	122.59	0.88	692.34	671.19	27.66	0.15	267.39	596.27	263119.49	5346.59	1361.01
07	41.90	123.01	0.84	676.33	662.28	27.23	0.15	268.30	599.28	258617.72	5499.95	1376.42
08	42.22	126.49	0.88	703.06	658.69	27.35	0.14	275.88	620.35	265456.71	5615.59	1424.45
09	41.73	127.89	0.87	719.73	691.33	25.98	0.13	278.95	620.35	290591.19	5853.91	1469.60
10	41.53	129.32	0.89	724.43	694.14	27.45	0.16	281.70	643.38	323493.01	5997.85	1490.93
11	40.42	129.25	0.89	728.59	680.89	27.47	0.15	281.58	639.76	316506.00	5653.02	1468.11
12	39.95	129.53	0.95	730.75	691.09	28.52	0.15	282.20	642.41	308574.47	5651.60	1473.72
2000 01	38.01	131.38	0.97	753.01	694.17	28.92	0.15	286.21	636.36	307521.73	5601.65	1482.71
02	38.06	132.00	0.96	753.62	671.55	28.94	0.15	257.57	640.27	319356.19	5368.96	1469.96
03	38.44	131.66	0.98	745.20	666.37	28.89	0.15	287.62	635.05	310541.00	5442.91	1459.80
04	36.22	125.02	0.93	702.36	613.60	27.28	0.13	272.37	609.18	289748.30	4846.19	1384.96
05	36.51	124.77	0.91	687.37	593.23	26.42	0.12	271.76	596.52	281514.02	4743.50	1355.15
06	37.81	128.67	0.95	717.95	632.34	27.26	0.12	281.02	614.86	301288.50	5261.10	1417.14
07	38.65	129.89	0.96	729.31	627.53	25.85	0.12	282.99	620.49	298468.94	5328.46	1415.55
08	39.06	130.74	0.97	729.03	620.89	26.56	0.13	284.88	630.12	296615.96	5293.62	1413.29
09	39.01	131.13	0.96	729.56	594.97	25.46	0.12	285.69	621.78	295994.29	5319.54	1407.44
10	39.38	132.40	0.96	716.62	572.61	25.01	0.12	288.42	624.39	290166.00	5206.00	1398.99
11	39.33	132.52	0.91	709.07	572.80	25.20	0.12	288.68	624.18	292624.75	5112.02	1398.96
12	39.18	132.52	0.89	720.81	608.56	26.10	0.12	288.68	634.84	300358.60	5062.66	1426.96
2001 01	38.74	132.75	0.86	730.48	599.12	25.67	0.12	289.21	629.15	291235.00	5297.18	1415.57
02	38.25	132.66	0.88	713.50	573.65	25.48	0.11	288.95	629.05	283942.80	4864.14	1411.76
03	38.12	132.53	0.84	700.29	542.41	24.80	0.11	288.68	615.15	287797.95	4771.95	1388.36
04	37.71	131.81	0.82	707.18	558.32	23.88	0.09	287.77	599.88	288624.05	4800.40	1388.05
05	37.60	132.29	0.85	709.50	570.99	24.08	0.10	288.16	607.05	305778.75	5026.05	1377.52
06	37.66	132.54	0.84	719.79	566.55	24.23	0.10	288.68	602.38	298877.65	4760.98	1370.43
07	37.50	132.66	0.84	716.15	557.29	24.04	0.11	288.95	609.83	292562.10	4677.48	1385.18
08	37.42	132.78	0.86	713.66	587.69	24.72	0.13	289.21	627.57	302609.65	4654.27	1408.25
09	37.30	132.80	0.85	701.70	539.00	24.90	0.12	289.20	631.90	318847.40	4951.00	1423.20
10	37.10	132.90	0.85	698.70	551.90	24.50	0.11	289.50	601.80	304865.00	4647.50	1394.00
11	36.70	132.90	0.86	687.20	570.00	24.80	0.10	289.50	599.10	300685.00	4477.00	1388.80
12	36.20	133.10	0.83	691.00	559.70	24.90	0.11	290.00	595.90	306080.50	4937.00	1382.40
2002 01	36.00	133.10	0.83	687.30	572.40	25.00	0.11	290.00	600.10	307733.50	4738.60	1373.50
02	35.70	133.40	0.84	693.20	567.60	25.20	0.11	290.50	602.30	324410.40	4890.70	1374.80
03	35.40	133.40	0.84	699.60	585.90	25.40	0.11	290.50	603.50	324024.00	4979.00	1384.40
04	35.40	133.40	0.85	705.60	601.40	25.50	0.12	290.50	610.80	339866.40	5111.50	1397.30
05	35.20	133.30	0.88	716.60	612.10	25.70	0.12	290.30	612.90	353621.80	5382.60	1414.30
06	35.10	133.50	0.91	723.10	634.20	26.30	0.13	290.80	623.20	358075.30	5425.60	1438.70
07	35.20	134.10	0.94	706.70	599.10	26.70	0.12	292.10	631.40	343656.00	5383.50	1484.90
08	35.30	134.80	0.93	718.50	618.20	26.40	0.13	293.70	638.00	348192.00	5033.20	1473.70
09	35.20	134.90	0.91	708.90	609.40	25.70	0.12	294.30	628.30	357998.50	5048.80	1474.50
10	35.30	135.40	0.91	715.90	622.30	25.80	0.14	295.40	631.40	350312.50	4921.20	1471.70
11	35.30	135.70	0.93	712.10	632.10	25.90	0.12	295.50	634.70	357619.40	5031.00	1493.90
12	35.40	135.90	0.94	720.60	634.90	26.00	0.13	296.10	647.60	393187.50	5298.80	1519.20

BALANCE OF PAYMENTS

in millions of dollar

	1995	1996	1997	1998	1999	2000	2001	2002[1]
Current account	38.9	-36.9	102.9	-75.6	-51.4	-70.0	-61.7	-132.2
Trade balance	-22.0	-87.4	65.1	-120.1	-112.9	-140.2	-169.9	-251.5
Exports F.O.B	451.0	423.4	568.5	462.3	454.2	535.8	523.2	500.9
Of which : Copper concentrate	257.6	174.5	211.4	124.8	119.2	160.3	147.9	138.1
Non-monetary gold	-	52.4	117.0	117.2	95.9	69.7	74.7	117.6
Combed cashmere	44.4	51.6	30.9	33.0	45.9			
Other	149.0	144.9	209.2	187.3	193.2	305.8	300.6	245.2
Imports C.I.F	-473.0	-510.8	-503.4	-582.4	-567.1	-676.0	-693.1	-752.4
Service balance	9.2	-6.0	-2.1	-11.6	-13.1	-17.6	-22.2	-13.8
Receipts	57.3	55.7	52.7	77.9	75.8	77.5	113.5	184.5
Payments	-48.1	-61.7	-54.8	-89.5	-88.9	-95.1	-135.7	-198.3
Income, net	-25.4	-13.3	-12.0	0.4	0.1	-6.5	-2.0	-4.5
Interest payments	0.0	-9.3	-9.4	-9.2	-6.2	-9.1	-8.8	-10.8
Transfer, net	77.1	69.8	51.9	55.7	74.5	94.3	132.4	137.6
Private unrequited transfers	0.0	6.2	4.2	2.5	7.4	-4.3	25.0	64.4
Public unrequited transfers	77.1	63.6	47.7	53.2	67.1	98.6	107.4	73.2
Capital account	-16.9	41.3	27.0	128.6	69.5	89.8	97.7	158.7
Medium and long term	32.3	72.0	104.3	124.1	124.2	136.4	111.6	179.4
Direct investment	9.8	15.9	25.0	18.9	30.4	53.7	43.0	77.8
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan disbursements, net	22.5	56.1	79.3	105.2	93.8	82.7	68.6	101.6
Of which: Disbursements	83.0	93.4	116.2	122.4	112.3	156.6	167.1	187.0
Amortization	-60.5	-37.3	-36.9	-17.2	-18.5	-73.9	-98.5	-85.4
Short term	-49.2	-30.7	-77.3	4.5	-54.7	-46.6	-13.9	-20.7
Commercial bank, net	-15.3	-9.3	-18.1	40.0	-17.7	-13.0	1.4	-9.5
Non-banks	-33.9	-21.4	-59.2	-35.5	-37.0	-33.6	-15.3	-11.2
Errors and omission	11.4	-26.9	-75.1	-51.4	24.1	-18.8	-52.0	46.0
Overall balance	33.4	-22.5	54.8	1.6	42.2	1.0	-15.9	72.4
Financing	-33.4	22.5	-54.8	-1.6	-42.2	-1.0	15.9	-72.4
Increase in net official reserves (-)	-33.4	16.6	-55.0	-5.6	-37.4	-1.0	11.1	-70.6
Use of IMF credit	-10.7	-3.1	6.2	0.8	3.1	1.7	-1.7	-7.8
Arrears accumulation (+)/payments (-)	0.0	5.9	0.2	4.0	-4.8	0.0	4.8	-1.8
Exceptional financing (rescheduling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items :								
Current account deficit (in percent of GDP)	5.2	-4.0	9.9	-7.0	-5.2	-5.8	-6.1	-12.0
Gross official reserves	100.8	97.8	139.9	123.2	155.9	181.9	206.7	268.2
In weeks of imports	11.1	10.0	14.5	11.0	14.3	15	15.6	18.6

[1] Preliminary

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