



THE BANK OF MONGOLIA



ANNUAL REPORT 2007

STATEMENT FROM THE GOVERNOR

Ladies and Gentlemen:

I am pleased to present to you the 2007 annual report of the Bank of Mongolia, outlining the implementation of the state monetary policy and other activities of the BOM.

The main objective of the monetary policy stated in the Monetary Policy Guidelines for 2007, is that inflation measured in CPI shall not exceed 5 percent annually. However, high domestic demand and strong foreign supply shocks resulted in high inflation, reaching 15.1 percent. High inflation was a result of price increases of the main products, such as oil, wheat, flour and rice, as well as salary increases for civil servants, rising social security costs and a deficiency in the supply of seasonal products.

In the second half of the reporting year, the Bank of Mongolia tightened its monetary policy stance in order to curb inflation. The Bank of Mongolia introduced its policy rate for the first time in July 2007 to improve the monetary policy instruments. Due to the rise of inflation, which started from August 2007, the BOM raised its policy rate twice by 1 percent in October and November, to 8.4 percent, to prevent growing expectations of high inflation. The growth rate of monetary and loan aggregates accelerates when the inflation expectation is high. In this regard, the Bank of Mongolia raised its required reserve by 0.5 points to 5.5 percent in December, 2007, with the aim of slowing down inflation expectations and determined to implement this regulation from the beginning of 2008.

Broadening of the banking sector and financial deepening is indicated by a 51.2 percent increase in total assets, a 75.7 percent increase in current accounts, a 46.0 percent increase in deposits and a 27.6 percent increase in capital, compared to the previous year. Total loans increased by 68.1 percent from the previous year, while the indicator of loan quality, the ratio of non-performing loans to the total loans, fell by 1.5 percentage points. Banks weighted average interest rates for MNT loans stood at 19.9 percent, which is 4.6 percentage points lower than the end of the year 2006. Also, the activation of the secondary inter-bank market and the launching of the secondary mortgage market are examples of many positive results in the banking system.

Sustained high prices of gold and copper in the world market facilitated Mongolia's economic growth, where the real economic growth accounted for 9.9 percent. In the reporting year, the general government budget recorded a surplus of MNT 102.0 billion, which is equal to 2.2 percent of the GDP. The net foreign reserves of Mongolia increased by 41.9 percent from last year to USD 975.3 million, which accounts for 24 weeks of import.

In the reporting year, by request of the Bank of Mongolia, the IMF and the World Bank performed a "Financial Sector Assessment Program" in Mongolia and the performance of the Mongolian financial sector was estimated at a good grade. The report concluded that the transparency practice in the conduct of monetary policy is open and there has been significant improvement.

For the upcoming year, the Bank of Mongolia is aiming to assist commercial banks to raise their capital, enhance their ability to tolerate risks, enter the international financial market, creating a favorable environment for strategic investors, improving the legal environment, conducting beneficial banking supervision and introducing progressive instruments of payment system.

In the short term, we are faced with an important issue, which is to slow, and further, to stop the price growth, by the implementation of monetary policy.

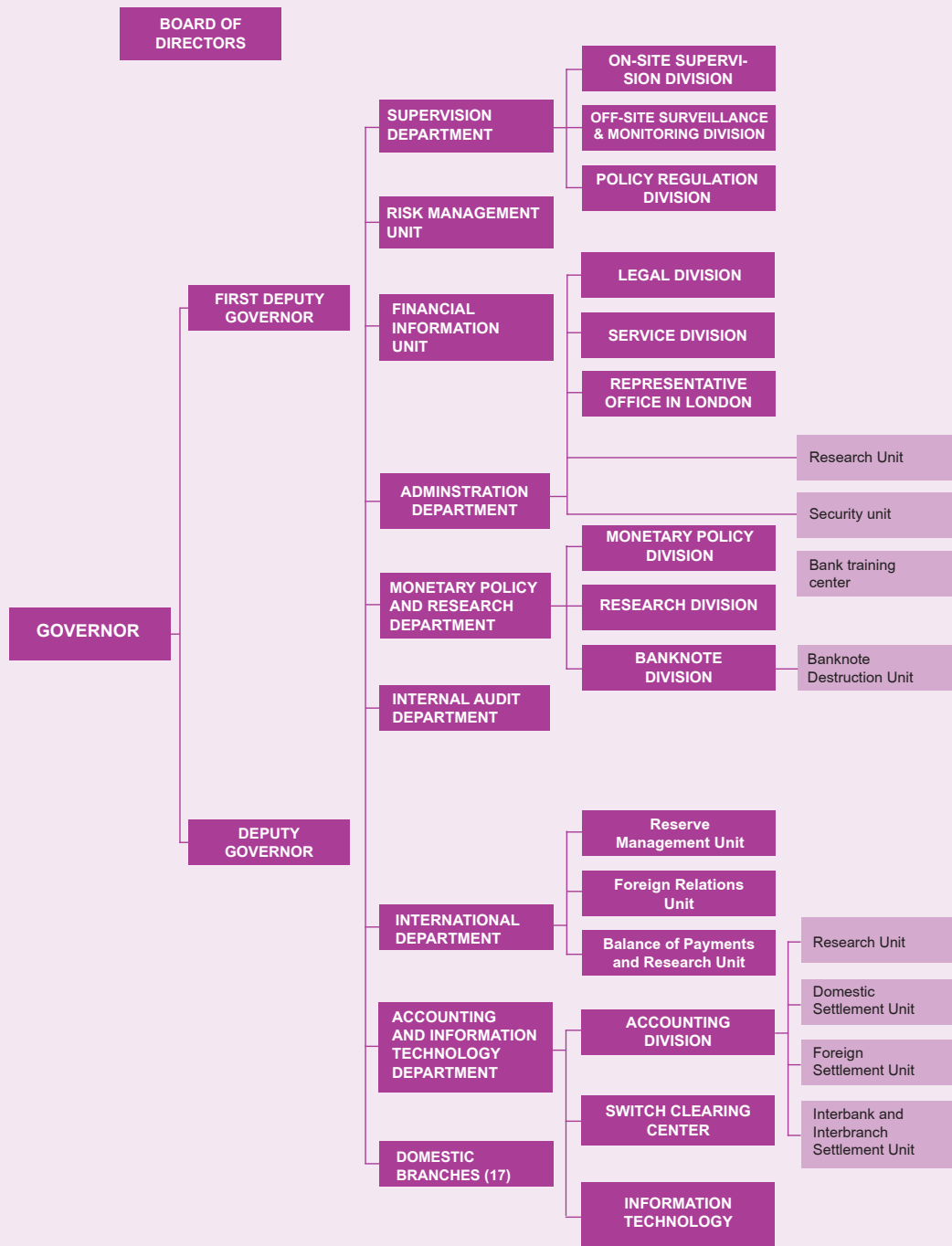
Respectfully,



A. Batsukh
Governor

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ORGANIZATION CHART OF THE BANK OF MONGOLIA





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MONETARY POLICY OBJECTIVE AND IMPLEMENTATION

1

1.1. Monetary policy objective and implementation

The main objective of the monetary policy, stated in the Monetary Policy Guidelines for 2007, is that inflation measured in CPI shall not exceed 5 percent annually.

In 2007, inflation reached 15.1 percent which was the highest level in the past 10 years. This was 10.1 percentage points higher than the targeted rate.

While inflation was 6.3 and 7.1 percent respectively in June and July of 2007, in August it showed a sharp increase, reaching 11.3, and rising to 15.1 percent in December 2007. This higher level of inflation was due to high domestic demand and strong foreign supply shocks. External factors affecting rising domestic prices were increases in the price of wheat, oil, vegetable oil, flour, and rice in the world market and increased inflation in the main trading partners. This demonstrates that our prices are heavily dependent on imports and their prices.

In addition, domestic demand factors affecting inflation were delay in domestic rail transports, increases in salaries, social security costs, Government investments, lending and an increase in monetary supply in the past few years. The MNT exchange rate against the US dollar was stable between October 2006 and July 2007. However, in August 2007, it depreciated by 1.4 percent and inflation rose sharply by 3.3 percentage points at the same time. This indicates that the impact of the exchange rate on inflation is crucial when 30 percent of the consumer basket is imported from abroad.

In 2007, the Bank of Mongolia implemented the monetary policy through monetary policy instruments such as the central bank bill, the reserve requirement, and the policy rate. The Bank of Mongolia revised its regulation on the calculation and control of reserve requirements in March 28th, 2007. In accordance with this regulation, the reserve requirement decreased from 14 percent to 5 percent, approximately 2 percent in real terms. Its purpose was to decrease the cost of loan source and the opportunity cost of liability, which is included in the loan rate. Moreover, the Bank of Mongolia revised its regulation on the Central bank bill in July 2nd, 2007, announcing a 7-day bill rate as its policy rate. The Bank of Mongolia conducts a 7-day Central bank bill auction as a fixed rate tender with pre-announced full allotment and the longer maturity Central bank bill auction as a variable rate tender with pre-announced allotment volume. This creates an opportunity to reduce the reserve of commercial banks.

The Bank of Mongolia announced its policy rate for the first time, aiming to affect the inter-bank rate through its policy base and further to affect lending and deposit rates in the economy. 2007 was a special year for paving the way for the introduction of a new monetary policy framework in the medium term. Moreover, the Bank of Mongolia has switched to a tight monetary policy from easy monetary policy. In this regard, the BOM took the following measures.

1. The Bank of Mongolia increased the policy rate. The policy rate introduced in June of 2007 was higher than the former weighted average rate of 7-day Central bank bill and the Bank of Mongolia raised its policy rate twice from 6.4 percent to 7.4 and 8.4 percent in October and November respectively, under the tightening monetary policy.
2. The Bank of Mongolia increased the weighted average of Central bank bill and inter-bank rate. Increasing the policy rate had the affect of causing the weighted average rate of Central bank bill and inter-bank rate to rise continuously since July, 2007 and they reached 9.85 and 8.25 percent respectively at the end of 2007. Growths in the

weighted average rate of Central bank bill and inter-bank rate respectively was 6.19 and 2.99 percentage points higher compared with June of 2007.

3. The Bank of Mongolia decreased excess reserve in the inter-bank market. The excess reserve continuously increased from the beginning of the current year reaching MNT 81.1 billion in July 2007. The Bank of Mongolia raised the Central bank bill rate to implement a tight monetary policy. This resulted in a decrease in average daily excess reserve, which had reached MNT 25.7 billion in July 2007. After July, the average daily excess reserve decreased reaching its minimum level of MNT 10.1 billion by October, while, by the end of 2007, it stood at 15.7 billion.
4. The Bank of Mongolia reduced the required reserve rate to 5 percent in March, 2007 in order to lower the loan interest rate. But the price increase, which started from the middle of 2007, required this rate to rise to 5.5 percent in December, 2007, due to the tightening monetary policy. This regulation was implemented from January 1st 2008 and the required reserve was expected to reach MNT 8.0 billion in January.

BOX 1. Monetary policy objectives

Money plays a fundamental role in the correct functioning of any economy. To preserve this role, the Central Bank's monetary policy must defend the value of domestic currency, seeking to maintain a low and stable inflation. The purpose of keeping inflation low and stable, which is how the concept of price stability is interpreted in practice, is no mere whim of the law, but rather serves the broader goal of maintaining the country's economy on the road to sustained growth, with full employment, and, in general, with progress and increased well being for Mongolians.

In fact, the Central Bank's greatest contribution to growth and progress is rooted in confidence in the future, associated with price stability. This stability provides an incentive to saving, investment and productivity gains, all of which are indispensable to economic growth. Furthermore, low, stable inflation is beneficial from the distributive point of view, because it favors the growth of employment and protects the income of the most vulnerable sectors of society.

Monetary policy can not influence long-term growth beyond this contribution of price stability. The potential consequences of this policy on economic activity and employment, over the short and medium-term arise from the different channels through which changes in monetary policy are transmitted in order, finally, to affect inflation. This is why monetary policy takes an anti-cyclical stance that, along with preserving price stability, seeks to avoid extreme variations in overall expenditure or domestic demand, which are conducive to unnecessary risks in financial markets and difficult conditions in terms of recession and unemployment.

In this sense, the focus of the Central Bank's monetary policy is price stability over time, taking into consideration this policy's effects on economic activity and employment in the short- and medium- term.

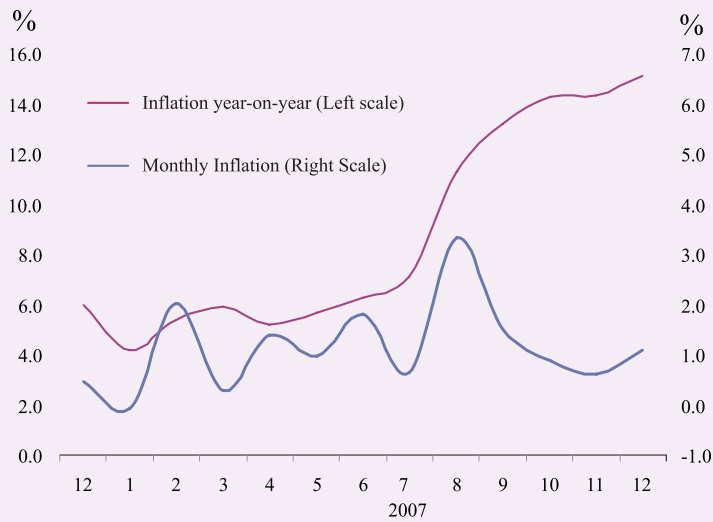


Figure 1.1.

Inflation

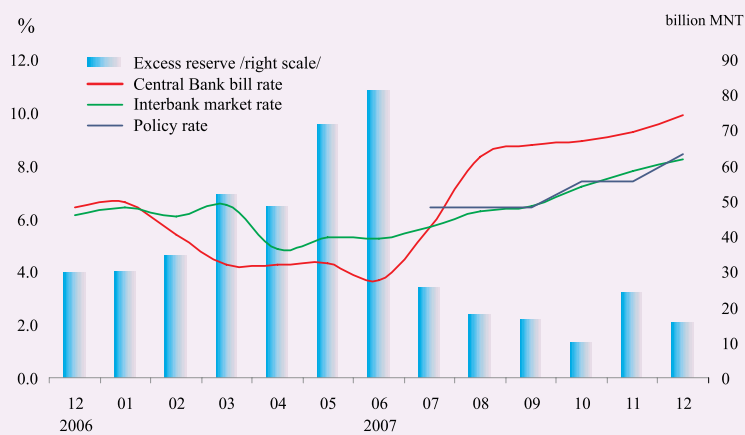
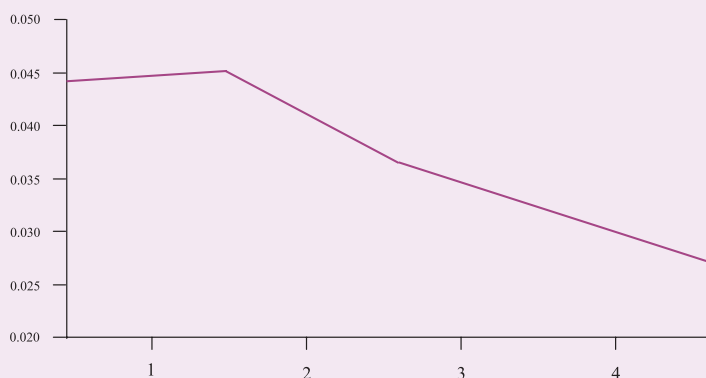


Figure 1.2.

Excess reserve and weighted average interest rate on the inter-bank market

Figure 1 illustrates the relationship between inflation and economic growth. Some researchers¹ argue that the inflation rate for strong economic growth has been 1-3 percent for developed economies and 7-11 percent for less developed countries.

Figure 1. Relationship between real GDP growth and inflation



Monetary policy targets, as distinct from objectives, are proximate goals – goals that are not objectives in and of themselves but which, if attained, will work directly toward achieving the longer term objectives of policy. Monetary policy targets are variables that, although thought to affect the ultimate objectives of monetary policy, are not controlled directly by the Central bank. They include various monetary aggregates and long-term interest rates. In contrast, operating targets are tactical goals that the central bank can influence better in the short run. Although central banks cannot use monetary policy instruments directly to affect intermediate targets, they can use them to affect operating targets, such as reserve money and short-term interest rates, which influence movements in intermediate variables. This can be illustrated as follows:

Reserve money \Rightarrow money supply (M2) \Rightarrow inflation

Short term interest rate \Rightarrow other interest rates \Rightarrow inflation

Monetary instruments that affect operating targets are generally classified as either direct or indirect. Direct instruments function according to regulations (granted to the central bank) that directly affect either interest rate or the volume of credit: for example, administratively set interest rate ceilings, individual bank credit ceilings, changes in reserve requirements, and directed lending. Direct instruments have become increasingly ineffective as money and financial markets develop; besides, they create distortions, and promote financial disintermediation, fiscal dominance, and corruption. Indirect instruments are also termed 'market based instruments,' since their use affects the market determined price of bank reserves as the central bank engages in transactions with both financial and non-financial institutions. There are two main types of indirect instruments – open market operations, and central bank lending policies – that are used to inject and absorb liquidity.

¹ Khan & Senhadji (2000)

Reserve money

In 2007, the growth in reserve money and its components, such as currency held outside banks, has been comparatively high but the growth in banks' deposit with the central bank has been low in comparison with that of recent years.

The reserve money rose by 40.1 percent from MNT 381.8 billion to MNT 535.0 billion. The growth in currency held outside banks, banks' deposits with central bank and banks' vaults made up respectively 64.1, 22.4 and 13.5 percent of reserve money growth. The banks' deposits with central bank and banks' vaults, as a proportion of reserve money growth, declined respectively by 24.5 and 7.0 percentage points but currency held outside banks, as a proportion of reserve money growth, increased by 31.5 percentage points in comparison with last year. In 2006, the main source of reserve money growth was growth in banks' deposits with the central bank whereas in 2007, currency held outside banks made up the overwhelming part of reserve money growth. This was a result of the implementation of new regulations of Central bank bills concerning the management of the banks' reserve.

The trends in recent years of the various components' share of reserve money changed in the reporting year. In particular, the share of reserve money in banks' vaults and banks' deposits with the central bank had increased and the share of reserve money in currency held outside banks had declined until 2006. In accordance with new regulations of Central bank bill, one-week Central bank bill is auctioned at a fixed rate without pre-announced volume, while longer maturity (12-week and 28-week) Central bank bills are auctioned at a variable rate with pre-announced allotment volume. This brought about a decrease in excess reserve of inter-bank market to and furthermore, banks' deposits with central bank, as a share of reserve money, declined from 35.8 percent to 32.0 per cent.

Since the Bank of Mongolia changed its regulations on required reserves, bank vaults were taken out of the required reserves component. This resulted in a decrease from 15.7 percent to 15.1 percent in banks' vaults due to the commercial banks' diminished interest in holding vaults.

Currency held outside banks as a proportion of total reserve money increased from 48.5 percent to 53 percent. This indicates active economic activity and a development of cashless payment in regards to the high circulation of cash payment in the economy.

In the reporting year, we can divide reserve money movement into 4 sections in relation to its factors

- End of 2006 to February, 2007
- March to May 2007
- June to November 2007
- December 2007.

End of 2006 to February, 2007. Currency held outside banks reduced in January and February, while reserve money increased due to a rise in banks deposits with Central Bank

March to May 2007. Currency held outside banks rose by MNT 167.6 billion to MNT 267.4 billion in March, 2007. It was the main cause of an increase in reserve money from MNT 401.3 billion to MNT 521.6 billion.

June to November 2007. Reserve money reduced to MNT 415.1 billion, due to a decrease in banks' deposits held with Central Bank, from MNT 198.8 billion to MNT 91.4 billion, while the currency held outside banks was stable between June and November. This was the result of tightening monetary policy in July 2007. Also the auctioning of Central bank bill rose from MNT 119.5 billion to MNT 168.1 billion, a change of MNT 48.6 billion. Weighted average CBB's rate increased from 3.68 percent to 9.19 percent.

December 2007. At the end of the reporting year, reserve money rose by MNT 120.0 billion or 28.9 percent. This was related to the holiday season. Currency held outside banks increased by MNT 21.6 billion and banks' vaults increased by MNT 18.9 billion. But the main reason for this change was due to the banks' deposit held with the Central Bank. In comparison with the previous month, banks' deposit held with the Central Bank rose by MNT 79.6 billion or 66.3 percent of the total reserve money. The increase in banks deposit with the Central Bank and in the money circulation is a result of CBB's decrease of MNT 168.5 billion to MNT 102.7 billion and the reduction of Government deposit with Central bank from MNT 724.0 billion to MNT 606.6 billion, as well as the increase of Government expenditure of MNT 117.4 billion.

Seasonal factors have a strong affect on reserve money and its components. The variation of banks deposit held with Central Bank was less than that of 2006 and it is still decreasing. Increase in variation of currency held outside banks caused the reserve money variation to increase, although the variation of banks' deposit held with Central Bank is decreasing. A decreasing trend in currency held outside banks was seen in 2002, but it began to rise from 2003. This trend continued in the reporting year.

Central bank bills (CBB)

In the reporting year, the Bank of Mongolia revised the regulations on CBB and changed the auction methods in order to improve the effectiveness of monetary policy. New regulations came into effect in July 2007. The Bank of Mongolia conduct one-week CBB auctions, as fixed rate tender with pre-announced full allotments and 12-week and 28-week CBB auctions, as variable rate tender with pre-announced allotment volume.

In 2007 the Bank of Mongolia conducted 58 CBB auctions and sold MNT 4,124.6 billion CBBs. The amount of CBBs purchased by banks reached MNT 104.5 billion at the end of the year. It had decreased by 18.9 percent from the previous quarter but increased by 22.7 percent compared to the same period in the previous year.

During the reporting year, the banks possessed an average MNT 121.2 billion of CBBs each day, 1.6 times higher than in the previous year.

* The Bank of Mongolia revised its regulation on the Central bank bill in July 2nd, 2007, announcing a 7-day bill rate as its policy rate.

The weighted average rate of CBBs at the end of the year was 9.85 percent, which is 1.10 points higher than in the previous quarter and 3.43 points higher than in 2006. The Bank of Mongolia paid MNT 7.9 billion to banks in interest on CBBs in the reporting year. This is 1.8 times higher than the previous year.

In the 4th quarter of the reporting year, the Bank of Mongolia raised its one-week CBB rate from 6.4 percent to 7.4 percent, and then further to 8.4 percent in order to bring down money supply growth by reducing reserve money and bank reserve. Moreover, in the reporting year, 12-week and 28-week CBBs were issued to absorb excess reserves in the banking system. At the end of the year, 12-week CBB outstanding was MNT 50 billion and 28-week CBB outstanding was MNT 6.3 billion, while their weighted average rate were 11.5 and 12.62 percent, respectively.

Central Bank financing

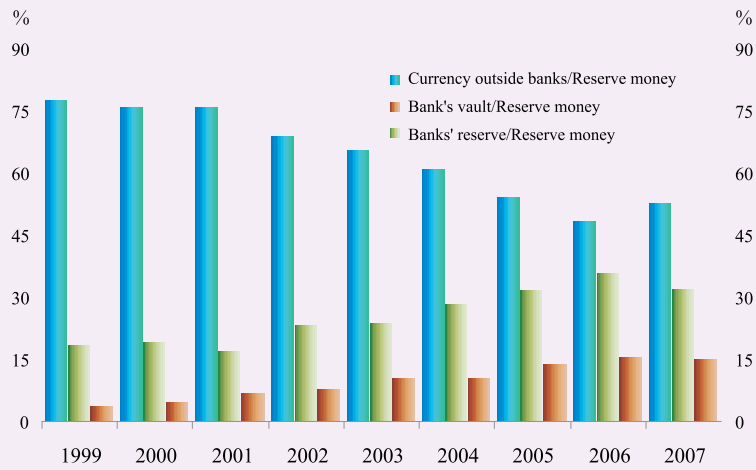


Figure 1.3.
Components of reserve money and its share in the reserve money



In the reporting year, the Bank of Mongolia financed six banks. The Bank of Mongolia stopped using discount facility but provided repo facility and overnight loans in 2007.

In the year 2007, MNT 10 billion overnight loans with a rate of 23 percent and MNT 53.1 billion repo financing with a rate of 18 percent were granted by the Bank of Mongolia. Interest rates on a central bank overnight loan is a maximum rate of CBB plus up to 5 percentage points and on repo facility is a maximum rate of CBB. The rate of CBB is relatively high because of banks' bid rates for longer maturity CBB auctions in the reporting year.

Reserve Requirements

The fulfillment of reserve requirements remains one of the powerful tools of the Bank of Mongolia to have an effect on money supply.

The moderate levels of inflation until the beginning of 2007 allowed the Bank of Mongolia to pursue an easy monetary policy stance and lower the reserve requirements ratio twice to reach a level of 5 percent, in order to affect favorably the country's economy, unemployment, and interest rates. However, the inflation spiral since July, caused largely by external factors, forced the Bank of Mongolia to tighten its monetary policy by raising the reserve requirements ratio by 0.5 percentage points to 5.5 percent, effective from January 1, 2008.

The Bank of Mongolia has not only updated the reserve requirements ratio but has also made changes to the Reserve Requirements Regulations. The reserve requirements on togtrog deposits and foreign currency were fulfilled 24 times, adjusted for each bank, in 2007. Cases of breaching the reserve requirements have been infrequent and the level of excess reserves was between 10.3 and 49.9 billion MNT. By the end of December, 2006, excess reserves were MNT 26.1 billion, which were reduced to MNT 14.9 billion by the end of the reporting year.

Net credit to the Government

As of the end of the reporting year, receivables of the banking system from the Government stood at MNT 24.1 billion, Government deposits reached MNT 750.6 billion and net credit ended at negative MNT 726.5 billion. Government deposits rose by MNT 233.4 billion from the previous year, while Government receivables and net credit fell by MNT 15.2 billion and MNT 248.6 billion, respectively.

Government securities of MNT 23.7 billion, set up to pay the debt to the Russian Federation, held by the Bank of Mongolia were completely paid in December, 2007.

The composition of the Government receivables was as follows: 93.7 percent was in short-term Government securities held by banks, 4.1 percent was tax prepaid by banks to the budget and 2.2 percent was accrued interest receivables held by banks on Government bond.

The amount of Government short-term securities purchased by banks reached MNT 22.6 billion at the end of the year, of which the Agricultural bank accounted for MNT 5.1 billion, Trade and Development bank MNT 1.1 billion, Golomt bank MNT 4.0 billion, and Anod bank MNT 6.5 billion.

Government deposits stood at MNT 750.6 billion at the end of the reporting year, of which 80.8 percent was placed with the Bank of Mongolia and the remaining 19.2 percent was with commercial banks. As of the end of the reporting year, 84.7 percent of the total Government deposits were concentrated in the Single Treasury Account and the Government current account, while 6.9 percent was in time and demand deposits, 7.4 percent was in the Government financing fund, and 0.9 percent was in the local budget.

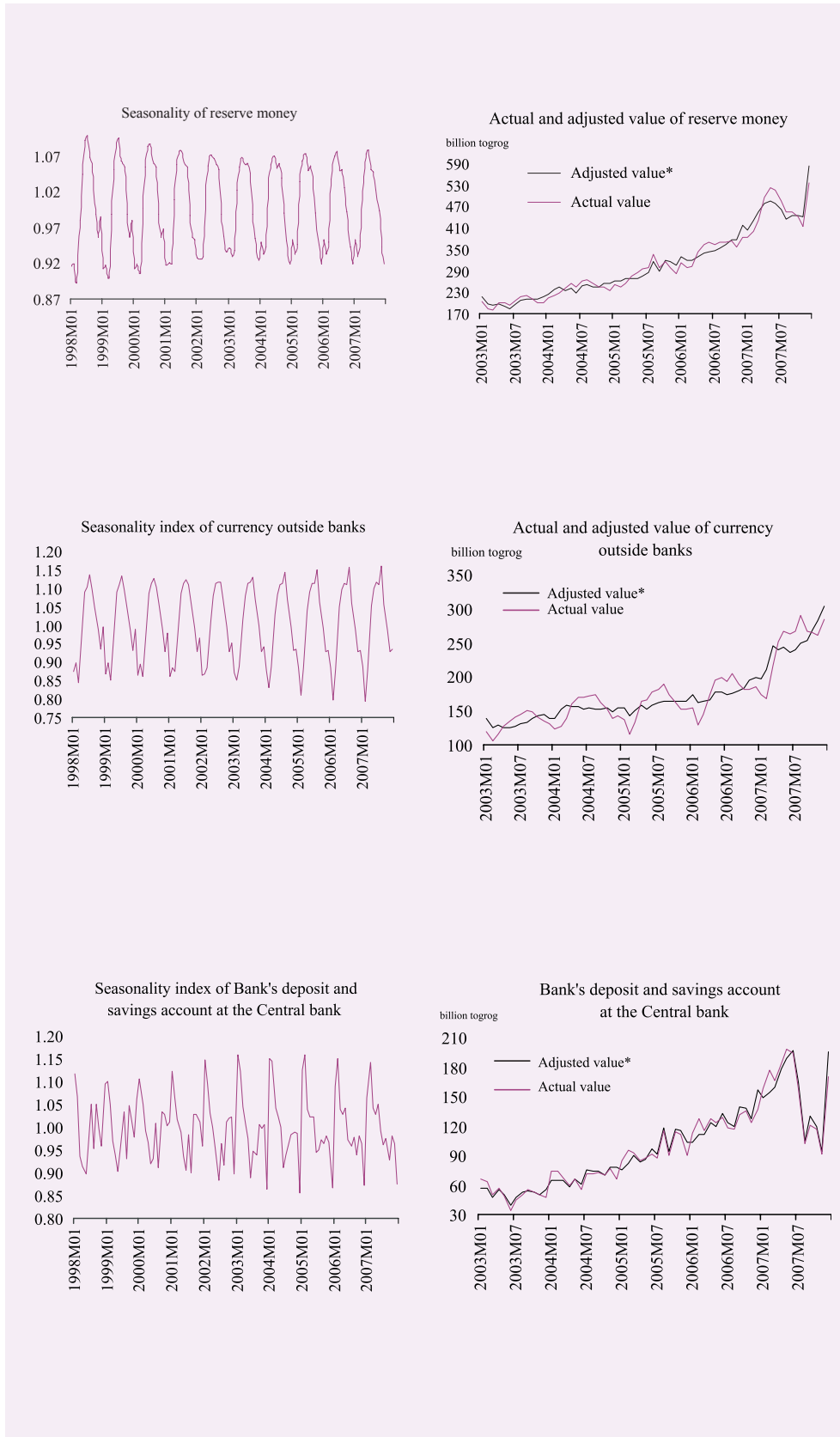


Figure 1.4
Seasonality of reserve money and its components

Agricultural sector development program (ASDP)

The Asian Development Bank ASDP project /1822-MON/ aimed at developing more market-oriented, efficient, and sustainable agriculture and reducing poverty by providing increased income opportunities through increased productivity and profitability of agricultural producers.

The Asian Development Bank contributed 80 percent of the required funds and six banks each contributed 20 percent from their own resources. Credits to sub-borrowers in the four western aimags of Zavhan, Uvs, Hovd and Gobi Altai, plus two central aimags of Darkhan-Uul and Selenge, were made available through six participating financial institutions /PFIs/, namely Anod Bank, Khan Bank, Mongol Post Bank, Savings Bank, Xas Bank and Zoos Bank. In 2007, under the ASDP, the Bank of Mongolia on-lent MNT 3.5 billion and there were MNT 2.2 billion of loans showing as receivables.

To ensure the sustainability of the project and particularly sustainable utilization of accumulated funds under the credit line component, the revolving fund of the project will be transferred to the Microfinance Development Fund (MDF). MDF was established under the World Bank Sustainable Livelihood project, to expand the outreach of financially and institutionally sustainable micro-finance services to the poor and middle income people in rural Mongolia.

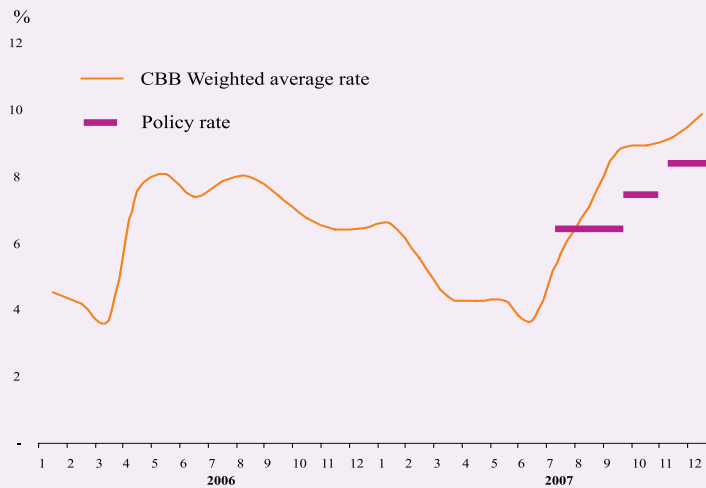
BOX 2: Inflation forecasting model "SIMOM" and its structure

It is widely recognized that due to the lags in the monetary transmission mechanism, monetary policy actions should be forward-looking. Therefore inflation forecasts constitute an extremely important input to the decision making process at central banks. They are also the principal communication tool of central banks.

Central banks use many sources of information to predict future inflation rates. For this purpose they usually make inflation forecasts by using different types of economic models, characterized by different degrees of theoretical and empirical coherence (Pagan, 2002, 2003). Moreover, central banks – especially inflation targeting ones – collect information on the inflation expectations of private agents (producers, consumers, financial markets), which affect the inflation process (Łyziak, 2005).

In recent years, the Bank of Mongolia has also paid attention to enlarging the information set used in the decision making process and making it more forward looking. Research studies on the Mongolian economy and econometric models aimed at forecasting macroeconomic performance have been developed.

The Small Inflation Model of Mongolia (SIMOM) is rooted in theoretical concepts; however – due to the fact that it will be used for regular inflation forecasting at the Bank of Mongolia – it is the empirical adequacy and consistency, which played the most important role in solutions applied while building it. The SIMOM consists of ten estimated equations – the domestic currency loan rate and foreign currency loan rate equations, the IS curve, the LM curve, the exchange rate equation, the Phillips curve in terms of the net inflation (excluding food prices and fuel prices), food price dynamics and fuel price dynamics equations as well as approximating (ad-hoc) equations for the real GDP and public wage.



* The Bank of Mongolia revised its regulation on the Central bank bill in July 2nd, 2007, announcing a 7-day bill rate as its policy rate.

Figure 1.5.
CBB policy rate and weighted average rate

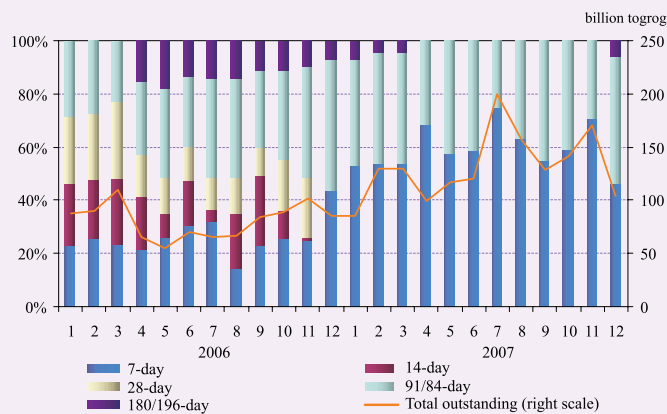


Figure 1.6.
CBBs' outstanding and maturities

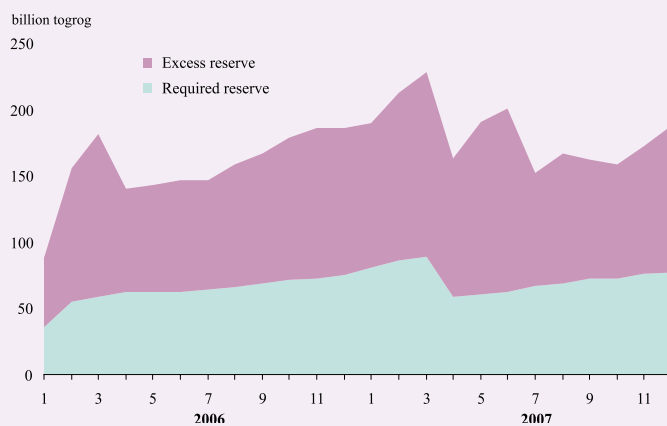


Figure 1.7.
Reserve requirements and excess reserves

The intended primary use of the model is analysis of the monetary transmission mechanism and the inflation process in Mongolia, the estimation of dynamic responses of selected variables to different shocks hitting the Mongolian economy as well as forecasting macroeconomic categories (e.g. exchange rate, output gap, inflation) over a medium term, consistent with the lags in the monetary transmission mechanism.

The projection is an outcome of an iterative process in the course of which the paths of some of the models' variables are adjusted, if they diverge from experts' economic intuition, informed by the general state of knowledge on economic processes. In other words, if projections of main macroeconomic indicators such as fuel prices and food prices diverge from experts' information and expectations, we make some expert judgments on these variables, consistent with the economic conditions. The following estimated equations are in the model:

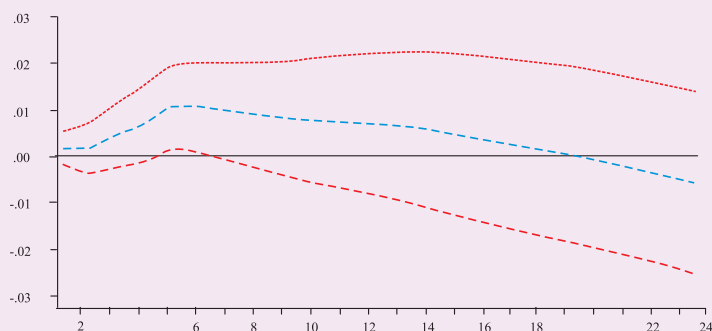
- Domestic currency loan rate equation: domestic currency loan rate depends on: (1) monetary policy rate; (2) reserve money (M0); (3) seasonal dummy variables.
- Foreign currency loan rate equation: foreign currency loan rate depends on: (1) monetary policy rate; (2) reserve money (M0); (3) a seasonal dummy variable.
- IS curve: output gap depends on: (1) its lag; (2) real average loan rate; (3) real effective exchange rate; (4) foreign demand (Chinese economic growth); (5) change in exported commodity prices (copper and gold prices); (6) a dummy variable.
- LM curve: reserve money (M0) depends on: (1) its lag; (2) monetary policy interest rate; (3) real GDP; (4) seasonal dummy variable; (5) dummy variable related to changes in regulation on central bank bill auctions.
- Exchange rate equation: USD/MNT exchange rate depends on: (1) its lag; (2) interest rate disparity; (3) PPP deviation; (4) weighted average of exported commodity prices; (5) fiscal expenditure relative to GDP (proxy for the risk premium); (6) seasonal dummy variables.
- Phillips curve: net inflation depends on: (1) its lag; (2) fuel price inflation; (3) output gap, (4) public wage growth; (5) import price growth; (6) a seasonal dummy variable.
- Food price dynamics: food price inflation depends on: (1) its lag; (2) fuel price inflation; (3) changes in exchange rate of USD/MNT; (4) a seasonal dummy variable.
- Fuel price dynamics: fuel price inflation depends on: (1) its lag; (2) growth of oil price in the world market; (3) changes in the USD/MNT exchange rate; (4) a seasonal dummy.
- Real GDP equation (approximating equation, ad-hoc specification): GDP in real term depends on: (1) its lag; (2) the output gap; (3) seasonal dummy variables.
- Public wage equation (approximating equation, ad-hoc specification): public wage depends on: (1) its lag; (2) copper price; (3) seasonal dummy variables.

The estimated coefficients seem to be in line with our expectations, economic intuition and data typical for small open economies. Signs of estimated coefficients are theoretically and empirically consistent. Diagnostic tests of the SIMOM equations are satisfactory.

Further, the structural variance covariance matrix D is assumed to be diagonal. The model is over-identified: there are six more restrictions than required to just identify model. But a likelihood ratio test shows that we can reject the over-identification restrictions, as the standard significance level is 0.12, suggesting that the model may be consistent with Mongolian data.

The Augmented Dickey Fuller (ADF) unit root test is used to determine the stationary of the variables in the system, which suggests that all variables have 1 (0) order of integration. The reduced-form VAR is estimated to be level with 3 lags as the optimal lag length is based on the likelihood ratio test and Final prediction error.

Figure 1. Impulse responses of inflation to one standard deviation innovation in annual changes of exchange rate $\pm 2S.E.$



The result of impulse response functions are described in Figure 1, from which it may be seen that the exchange rate pass-through to inflation is relatively high and the impact of depreciation shock to the exchange rate on inflation is over within 20 months, but is mostly felt in the first 4-7 months. In other words, the inflation impulse response is significantly different from zero at the 5 percent probability level for these 4-7 months. These results are consistent with estimates reported in other studies of the pass-through in Mongolia (L.Davaajargal (2005); and A.Khulan (2005)).

Results of variance decomposition show that after five months, the exchange rate shock explains 13.3-16.9 percent of the forecast error variance of annual inflation, while the remainder of the variance of annual inflation is explained by innovations in other variables. Specifically, 61.2-64.5 percent of the variance is explained by its own innovation followed by the petrol price, which explains 12.7-13.7 percent of the variance.

Estimates of the pass-through coefficients are obtained by dividing the cumulative impulse responses of each price index after j months by the cumulative response of the exchange rate to the exchange rate shock after j months². In the case of Mongolia, the pass-through coefficients increase until the eighth month, by the end of the sixth to eighth month after the shock, 40.0-52.0 percent of the exchange rate depreciation shock seems to have passed through to consumer prices.

These results, which show a high exchange rate pass-through to inflation, present a complication for monetary policy implementation.

² In the calculation, we used another recursive VAR model, which is similar to McCarthy (2000). The pass-through coefficient is thus defined as $PT_{t+j} = P_{t+j} / E_{t+j}$, where P_{t+j} is the cumulative change in the price level and E_{t+j} is the cumulative change in the nominal exchange rate between month's t and $t+j$.

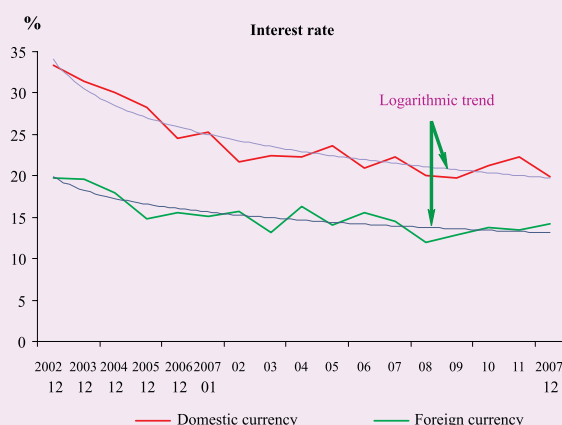
BOX 4. Interest rate

Interest is one of the most important prices in the economy. The interest rate is the cost of capital and is subject to the laws of supply and demand of the money supply. Therefore the interest rate should be studied in relation to supply and demand of the money supply. We can classify main reasons for the fall in the interest rate.

1. The Environment of Macro Economy
2. Activities of Bank branches
3. Competition

The interest rate has been falling in previous years, and the fall has continued in this reporting year. In comparison with the previous year, the borrowing rate of the MNT and the USD fell by 4.6 and 1.3 points, falling from 19.9 to 14.2 percent.

Figure 1. Borrowing rate, in percentage



The Environment of Macro Economy

There are several theoretical models that explain how the interest rate is defined and what matters influence its changes. For example, the theory of the capital market, the loan market, the money market, the bond market and Fisher's theory of related nominal interest rate and inflation etc. In our country the following factors have influenced the decrease in the interest rate:

1. Economic growth and the expansion of the business cycle
2. The monetary policy
3. The exchange rate
4. The taxation policy

Economic growth and expansion of business cycle. In the last few years, the economy has been growing rapidly and there is continuing expansion of the business cycle. The growth of aggregate money, loan and deposit reached a high percentage in previous years. Moreover, as a result of the transfer of employees abroad, there has been an expansion in the growth of foreign direct investments and the financial sector.

As the source of banks' loan has grown, the interest rate has been decreasing. During economic growth, people's wealth increases the supply of the loan source which leads to a decrease in the loan interest rate.

Monetary policy. Central bank's monetary policy instruments directly affect the supply side of loan, but not the demand side of loan. Therefore, monitoring the interest rate is limited. In general, easy monetary policy tends to decrease the loan rate by increasing loans and the aggregate money. But the interest rate of loan depends on other factors. The Bank of Mongolia reduced the reserve requirement in March, 2007. Its purpose was to increase the supply of loan source and to decrease the interest rate by reducing the costs, which are related to the reserve requirement.

The exchange rate. The MNT against the USD appreciated during 2006 and remained stable in the first half of 2007. That was one of the factors leading to a decreased interest rate. In Mongolia the interest rate of the togrog is higher than interest rate of the dollar. Although the interest rate of both togrog and dollar show a trend to decrease, the difference between them decreased from 10.2 percent in the beginning of the 2007 and reached 5.7 percent by the end of the year. This decrease was influenced by the exchange rate of the togrog and the dollar.

The taxation policy. An important factor influencing the decrease of the interest rate was the decrease in tax which has been implemented since January 2007. As the tax decreased, the expenses of banks are eliminated, and furthermore, they can lower the interest rate, because the tax directly influences the beneficial activity of banks. On the other hand, the budget statement of having a surplus influenced the elimination of the loan demand of state sectors in the loan market and decreased the loan interest rate as well.

Activities of Bank branches

In the financial sector, financial deepening and efficacy of the banking sector is influential in terms of reducing the loan rate. In Figure 1, M1, M2 and the total loan against the GDP shows financial deepening.

Although the share of quasi money or M1 in the GDP decreased during the years of 2002 to 2006, it increased to 13 percent in 2007. M2 and the total outstanding loans share in GDP increased, compared to the recent years, except for the total outstanding loans in 2004, and took 52.7 percent and 45.1 percent respectively.

If we look at the composition of the loan interest rate, the cost of the loan source, it can be seen that cost or risk are the main factors influencing the interest rate.

1. **Cost of loan origin.** Commercial banks' cumulative fund for loan origin differs from bank to bank, but mainly consists of deposits and savings accounts, and loans originating from them. In our country, the continuing trend of high interest rate on savings is the main reason for the high cost of the loan origin. But in recent years the ratio of overall loans and savings decreasing in relation to a lower savings interest rate is affecting the cost of loan origin. A decrease in the budget current account affected positively the reducing of commercial banks loan origin.

2. Risk-based cost. One of the other factors that affect the interest rate of commercial banks' is the risk that's associated to the loan. Banks include the cost of risk in the loan interest rate, just as they include the cost of operation. Banks risks are classified as operational, exchange rate, loan and liquidity risks.

Loan risk. The probability of the loan repayment rate and the improvement of the loan portfolio are important for reducing the loan interest rate. Figure 3 shows the proportion of non-performing loans to the total loans. The proportion of non-performing loans to the total loans has decreased since July, 2006, reaching 3.3 percent in Dec, 2007, which was 1.6 point lower than that of the beginning of the year.

Liquidity risk. Banks are intermediaries which are based on customers' trust. They need to be able to make prompt payments according to the customers' request. Liquidity risk requires efficient monitoring of the funds. Monitoring of liquidity depends on how actively the money market development or inter-bank market operates within the country. In recent years the inter-bank market has been progressing and the number of money instruments rose by 6.6 times in December, 2007 compared to 2006. This means that the development of the inter-bank market affects positively the decrease of opportunity costs which are related to managing funds and reducing liquidity risk.

Risks associated with the legal system. When the customer becomes insolvent, banks spend 1-2 years in the process of closing the debt by selling the security or the real estate property because of the gap in the legal system. On the other hand, the origin of these loans still charges interest on those non-performing loans and it forces the banks to raise their loan interest rate.

Figure 2. M1 and M2 share in GDP

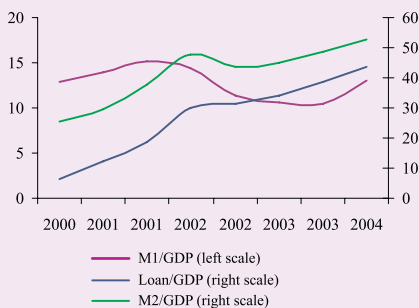


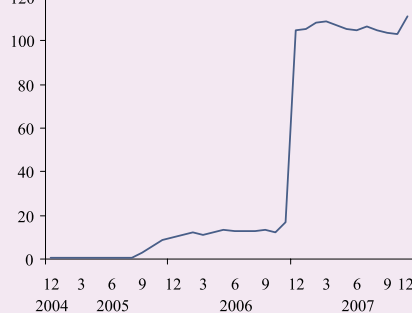
Figure 3. Deposits against the net domestic loan



Figure 4. Percentage of non-performing loans in total loan



Figure 5. Money market instrument, in billion MNT



Competition

The determination of banks deposit and interest rate depends on the profit, risk and expenses of that particular bank and its branch deposits and competition for loans. A high level of competition prevents banks raising their interest rate and forces them to keep it low.

Although there are 16 commercial banks operating in Mongolia, as of December 2007, the 5 leading banks hold 82 percent of the total deposits and 71 percent of the total loans. It appears that there is a lower level of competition in deposits compared to loans and there is centralization in the banking sector.

Centralization of deposits affected negatively the lowering of the deposit rate; due to low competition smaller banks are keeping their interest rate high in relation to the reluctance of leading banks to reduce the interest rate. But the competition within the loan market is comparably high due to favorable macroeconomic factors, the reduction of the reserve requirement and an increase in banks loan assets. In 2007, the commercial banks' loan rose to 68.1 percent. Furthermore, the classification of bank loans has been enhanced, by increasing long term personal loans and property loans, which have increased competition on the loan market, initiating a tendency to reduce the loan rate. Slashing the loan interest rate reduces the profit. In order to keep the profit level high, banks will be able to reduce their deposit rate.

Loans transmitted through Bank of Mongolia

Employment Generation project (EGP)

In the reporting year, Golomt, Zoos, Erel, Anod, XAC, and Ulaanbaatar City banks participated in the Employment Generation Project /1290-MON./

Deposited funds at the end of 2007 were worth MNT 3.4 billion, of which: MNT 2.4 billion was placed with the banks and there were MNT 2.5 billion of loans showing as receivables at the end of the year. The project participating banks paid MNT 2.8 billion to the Bank of Mongolia on schedule during the year.

In the reporting year, 3584 new workplaces were generated by the banks: Zoos Bank created 1007 jobs, Golomt Bank 1886, Anod Bank 345 and Erel Bank 69.

KfW program loan

Two programs, intended to support export-oriented small and medium size enterprises /SME/ and the Mongolian financial sector, under an agreement between the governments of Mongolia and Germany, have been successfully implemented. The Government of Mongolia received the total of EUR 8.7 million as a fund for on-lending loans, of which EUR 5.1 million was under SME Programme I and EUR 3.6 million was under SME Programme II. In the reporting year, Capitron bank and Mongol Post bank participated in two Programmes.

The loans repaid by the banks were used to create a revolving fund and were re-lent through the participating banks. In the reporting year, EUR 3.6 million from this fund was re-lent to project participating banks and EUR 2.3 million was paid to the Bank of Mongolia. There were MNT 13.8 billion of loans showing as receivables at the end of the year.

1.2. Money supply

Money supply (M2)

In the reporting period, the money supply in the economy rose by 56.3 percent, or MNT 864.6 billion, from the beginning of the year, reaching MNT 2.4 trillion. The majority, or 70.1 percent, of the money supply growth was provided by quasi money growth, showing a decrease of 14.1 percentage points from its level in the previous year. The contribution of money M1 (currency outside the banks and current accounts) to money supply growth decreased by 14.1 percentage points from the previous year, standing at 29.9 percent. When the money supply growth in the reporting year is compared with the growth in the previous year, it can be seen that it accelerated by 21.5 percentage points.

Looking at the components of money supply, quasi money and narrow money amounted to 75.4 (of which, domestic deposit was 46.4 percent, foreign currency deposit was 15.7 percent and foreign currency current account was 13.3 percent) and 24.6 percent, respectively. Trends in the composition of money supply development show that the annual growth of money M1 was relatively stable in the previous year, during which it increased continuously since January, reaching 77.9 percent at the end of the reporting year. The annual growth of quasi money was relatively stable compared to the annual growth of M1, which increased higher percents in the last quarter than other quarters, which is a consequence of the growth of togrog deposits and foreign currency current accounts. The majority of growth in the money supply was provided by growth in quasi-money, in particular, the togrog denominated deposits of individuals and enterprises.

Table 1.1 Summary table of monetary variable

	Outstanding amount as a percentage of M2*	Annual growth rates						
		2004	2005	2006	2007 Q1	2007 Q2	2007 Q3	2007 Q4
Money (M1)	24.6	4.0	21.6	23.3	46.3	52.8	55.6	77.9
Currency outside banks	11.8	9.1	6.2	21.5	49.3	32.4	41.2	53.0
Current account (MNT)	12.8	-4.3	50.0	25.7	43.0	83.8	74.8	109.3
Quasi Money (M2-M1)	75.4	27.6	39.2	38.3	46.7	35.1	38.8	50.3
Togrog deposits	46.4	25.3	41.6	62.5	75.1	78.5	75.8	60.8
Foreign currency current account	13.3	-14.7	84.0	5.0	15.8	20.8	31.1	53.4
Foreign currency deposit	15.7	75.6	13.5	23.3	16.0	-17.2	-11.7	24.1
Money (M2)	100.0	20.4	34.6	34.8	46.6	39.1	42.4	56.3
Money multiplier		3.61	4.05	4.02	4.05	3.92	4.82	4.49
Money velocity		2.54	2.44	2.42	-	-	-	1.90

*As a percentage of M2, at the end of year.

Annual growth in togrog deposits and foreign deposits has changed relatively unequally over the year, depending on the movement in the togrog exchange rate and its expectations. In the first seven months of the year, when the togrog exchange rate was stable, annual growth of togrog deposits reached 82.2 percent, after which the aggressive growth of togrog deposits decreased continuously until it reached 60.8 percent, at the end of the reporting year, due to

the temporary appreciation of the togrog exchange rate in August. In contrast, the annual growth of foreign currency current account and foreign currency deposits increased to 53.4 and 24.1 percent, respectively.

The money supply increased in the first half of the reporting year, due to a growth in Government social welfare oriented expenditure, in wages of State institutions, pensions and allowances, and the activation of mining sector operations. However, in the second half of the year, the money supply increased as a result of continued fiscal policy expansion.

Examination of the annual growth of the money supply, through changes in net foreign assets and net domestic assets, show that the net foreign assets comprised the growth, as in the previous year, in the first half of the reporting year. However, since net domestic assets increased aggressively, their growth exceeded the growth of net foreign assets in the last half of the year.

This growth of net foreign assets was a result of net official foreign reserves, relating to the growth in the gold and copper prices in the world market, and the rapid increase in the annual growth of net domestic assets in last half of the year, which was a result of the growth of domestic credit within the banking system to individuals and private sector. This growth of domestic credit can be explained by the decline of the reserve requirement ratio of commercial banks, which was implemented as part of monetary policy, with the aim of fostering economic growth by decreasing the lending rate and extending investment. As a result of this change, the loan interest rate was reduced. At the end of reporting year, the lending rate decreased more rapidly to 19.9 percent, which is a decrease of 4.6 percent from same time in the previous year.

The net domestic assets increased by 138.4 percent or MNT 560.2 billion, as a result of the fact that the net domestic credit of the banking sector grew by 78.4 percent or MNT 584.1 billion while the net amount of other items decreased by 7.0 percent or MNT 23.9 billion from the beginning of the year. In the reporting year, credit to the public sector decreased by 25.6 percent, or MNT 9.4 billion, and net credit to the private sector increased by 77.0 percent or MNT 507.1 billion.

As a result of net foreign assets (including the amount in all banks) having increased by 41.5 percent, or USD 284.9 million, net official foreign reserves were pushed up by 29.1 percent, or USD 269.6 million in the reporting period. This change in net foreign official reserves was also affected by an increase of time deposits at foreign banks by 38.5 percent or USD 165.4 million, foreign government securities held by the Bank of Mongolia by 27.7 percent, or USD 32.9 million, current accounts at foreign banks by USD 18.0 million, and the rise of monetary gold by USD 64.2 million..

Narrow money (M1)

As of the end of the reporting year, narrow money (M1) rose by 77.9 percent, or MNT 258.6 billion, and reached MNT 590.5 billion, comprising 24.6 percent of the total money supply. However, cash in public hand increased due to the rise in Government social welfare oriented expenditures in 2007, as the scope for using non-cash payment instruments expanded, the growth of togrog demand deposits became a main determinant in narrow money (M1) growth and the weight of demand deposit on narrow money exceeded the currency outside banks. Namely, growth in Togrog current accounts contributed to 62.0 percent of narrow money (M1) growth. The tendency of recent years, when the speed of quasi money was greater than narrow money, reversed during the reporting year and the proportion of narrow money in money supply growth increased by 14.1 percentage points.

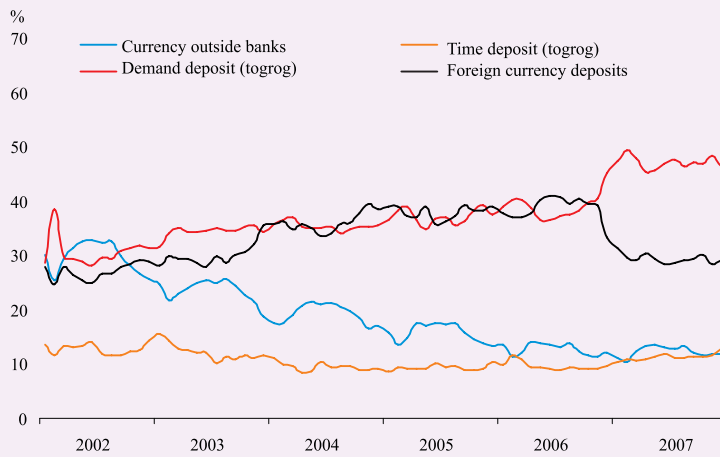


Figure 1.8

Composition of money supply (as a percentage of M2)

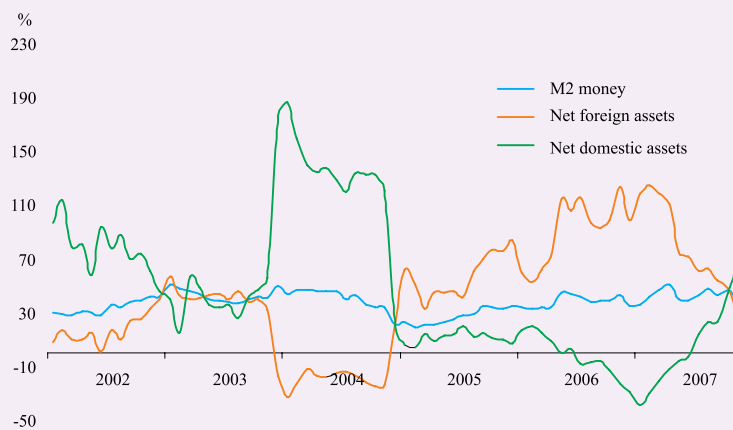


Figure 1.9.

Annual changes in the money supply (M2), Net foreign assets, and Net domestic assets

In the reporting year, currency outside banks increased by 53.0 percent, or MNT 98.2 billion, while cash in banks increased by 34.6 percent, or MNT 20.8 billion, and Togrog current account increased by 109.3 percent, or 160.4 billion.

Due to an increase in wages within state institutions in February 2007, the growth of narrow money accelerated from first quarter and since wages increased again in October, the acceleration of narrow money growth reached its peak at the end of the year. Because of these effects, the usual pattern of seasonal fluctuation of narrow money has been broken and has shown an increase instead of a decrease. Moreover, in recent years, due to the rapid growth of narrow money, the proportion of narrow money in the money supply has increased slightly.

Quasi money

In the reporting year, quasi money increased by 50.3 percent, or MNT 606.0 billion, reaching MNT 1.8 trillion, equal to 75.4 percent of the total money supply. This also indicates that quasi money has been continuously increasing, due to domestic and foreign currency savings and foreign remittance in recent years. The composition of quasi money shows that Togrog savings increased by 60.8 percent, or MNT 421.2 billion, and foreign currency savings grew by 36.1 percent, or 184.7 billion from the beginning of the year. This means, due to Togrog exchange rate against the US Dollar being relatively stable during the reporting period, that the quasi money growth was fuelled by the growth of both Togrog and foreign currency savings.

At the end of the reporting year, Togrog deposits accounted for 74.8 percent of total deposits, while foreign currency deposits accounted for 25.2 percent. In comparison with 2006, the proportion of togrog deposits increased by 5.2 percentage points while the contribution made by foreign currency deposits declined by the same amount.

Money multiplier and Velocity

The velocity of money is the average frequency with which a unit of money is spent in the economy. At the end of the year the velocity of money decreased by 0.52 points and stood at 1.90, which indicates that money supply circulates 1.9 times per year, in terms of the total production of the economy. This fall in the velocity of money is a result of higher growth in the money supply than the nominal GDP.

The high money multiplier indicates the banking and financial sector can create a high level of money supply with a small amount of reserve money. Money multiplier in the reporting year raised by 0.47 points from the previous year, reaching 4.49. This indicates reserve money multiplied 4.49 times, creating the money supply in the economy. The increase in money multiplier was due to money supply growth being greater than reserve money growth, a decrease in the ratio of currency outside banks and the total deposits and a decrease in the ratio of banks' reserve and the total deposits.

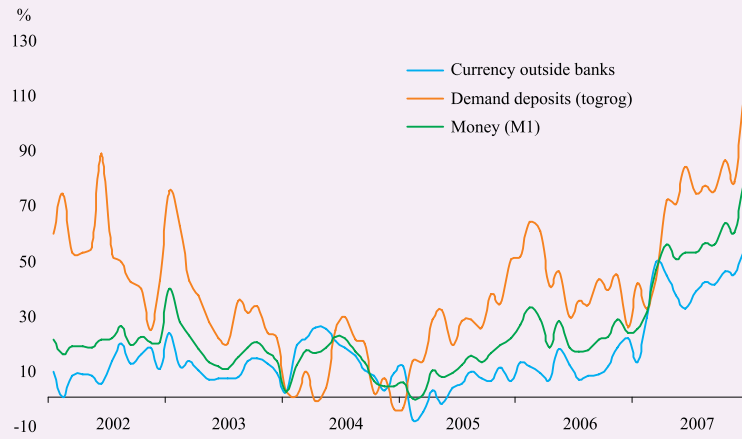


Figure 1.10

Annual changes in narrow money and its components

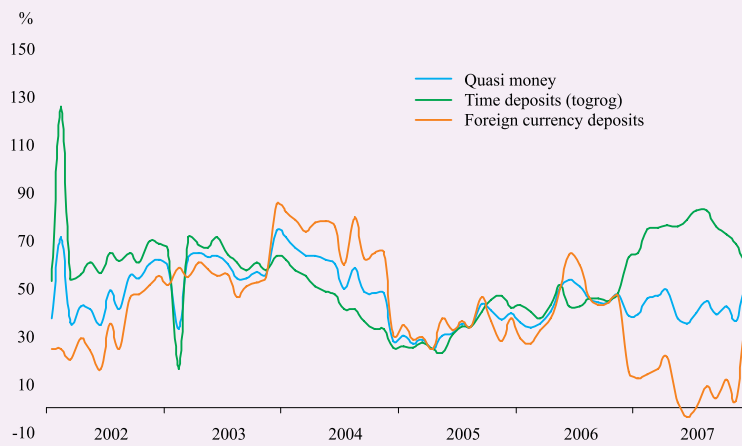


Figure 1.11.

Annual changes in quasi money and its components

BOX 5. Survey of monetary policy in neighboring countries

Monetary policy of the Russian Federation in 2007

To create favorable conditions for sustainable economic growth, in 2007, as in the previous years, the Central Bank of Russia (CBR) pursued a monetary policy aimed at consistently reducing inflation and maintaining the stability of the national currency. In 2007, some positive trends were observed in the Russian economy such as the fact that economic growth was 8.1 percent, according to positive external effects such as the increase in profit of foreign trade increased and an increase in investment in the economy. But due to food price increases in the international market, inflation, mainly with reference to flour and wheat products, vegetables, and fruit, exceeded the target level (target level for 2007 was 8.0 percent) and reached 11.9 percent.

As a part of the tight monetary policy against high inflation, CBR increased its reserve requirement ratio twice and the reserve requirement for deposits from individuals became 4.0 percent. Moreover, the re-financing rate, which was 10.0 before the changes, reached 10.25 percent, decreased excess reserves in the banking system by selling more central bank bills and increased the rates of deposit instruments.

As a result of tight monetary policy, the money supply in the economy rose by 47.5 percent, which slowed by 1.3 percentage points, from the beginning of the year, reaching to RUB 13.3 trillion, while reserve money increased by 33.7 percent, reaching RUB 5.5 trillion and the growth of reserve money decreased by 7.8 percentage points from the previous year.

The total loans outstanding in all the banks that are operating in Russia, increased by 49.3 percent, reaching 13.0 trillion rubles and total deposits increased by 43.6 percent, reaching 10.5 trillion rubles. In terms of the interest rate, the loan rate increased by 0.3 percentage points to 10.8 percent, while the deposit rate increased by 1.2 percentage points and reached 5.2 percent.

Monetary policy of the People's Republic of China in 2007

The main objective of the monetary policy of the People's Bank of China (PBC) is to maintain the stability of the value of the currency and thereby promote economic growth. The monetary policy instruments applied by the PBC include reserve requirement ratio, central bank base interest rate, rediscounting, central bank lending, open market operation and other policy instruments specified by the State Council.

In 2007, China's national economy kept steady and fast growth with the features of rapid economic growth and annual growth of GDP reached 11.2 percent. In the reporting year, growth in the agricultural and industrial sectors has rapidly increased and the total volume of imports and exports for the whole year reached 2.2 billion US dollars. China had a trade surplus of 0.26 billion US dollars, and the per capita disposable income of the urban population was 13.0 thousand Yuan, while the registered urban unemployment rate at the end of 2007 was 0.1 percentage point lower than that at the end of the previous year. However, due to a high inflation of 6.5, the real purchasing power of individuals decreased and the cost of financial intermediation increased.

PBC has implemented a tight monetary policy for increasing inflation and according to this policy PBC increased its reserve requirement ratio ten times and set it at 14.5 percent, while it increased the loan and deposit base rate six times and set the time deposit rate at 4.14 percent and the loan rate at 7.47 percent. In recent years, PBC has preferred to use non-direct instruments rather than direct instruments.

However, PBC is implementing a tight monetary policy, due to high economic growth, and money supply is increasing rapidly. Namely, the broad money (M2) was 5.5 trillion Yuan, an annual growth of 16.7 percent, which was 0.22 percentage points lower, the narrow money (M1) was 2.09 trillion Yuan, a rise of 21.0 percent, or 3.53 percentage points higher and the reserve money was 0.42 trillion Yuan, up by 12.1 percent. The reason for the increase in reserve money was a result of continuing growth of the reserve requirement ratio on deposits.

Outstanding loans of all financial institutions stood at 3.8 trillion Yuan at the end of the year, an increase of 16.4 percent as compared to those at the beginning of the reporting year. Of the total 3.6 trillion Yuan was Yuan loan, which increased by 16.1 percent and foreign currency loan was 219.8 billion Yuan, which was up by 30.2 percent.

1.3. Foreign exchange reserve management

The BOM took measures to increase the foreign exchange reserve, to invest in safer and high yield instruments and to establish a more efficient structure of reserve management in 2007.

In 2007, the net foreign exchange reserve reached USD 975.3 million, due to USD 282.6 million increases in foreign assets and USD 5.4 million decreases in foreign liabilities. The net foreign exchange reserve covers 24 weeks or 5.4 months of the total import, which is achieved at the monetary policy target of 17 weeks of the total import.

In terms of the composition of the changes in the foreign exchange net reserve, 20.1 percent was foreign exchange valuation, while 79.9 percent was real changes. For example, the net international foreign reserve had increased by USD 37.1 million and USD 17.4 million due to changes in the cross rate of XAU/USD and EUR/USD, respectively.

Based on other countries experience of the reserve management decision-making structure, the BOM adopted a 2-tier governance structure comprising an investment committee and the portfolio staff in the last quarter of 2007.

In order to adopt the international standard structure of reserve management as front, back, and middle office, in January 2007, the Bank of Mongolia has established a Risk Management Unit, which will be responsible for middle office functions. This unit has been working to determine the risks in relation to reserve management operations, measurements, control and reporting, to determine foreign reserve benchmark and to report its implementation and also to create an infrastructure of reserve management.

In 2007, the Bank of Mongolia directly and indirectly (via commercial banks) purchased total 8.4 tons and net 7.4 tons of gold, totaling MNT 277.4 billion from 110 domestic gold mining companies and from 168 individual citizen transactions. In addition, a settlement of 2 tons of gold by the Altan Dornod Mongolia LLC was completed at the end of 2007, which resulted

in an increase of total gold purchase up to 10.5 tons and net purchase of 9.3 tons respectively. This was 0.6 tons or 7.1 percent lower than the previous year, which indicates that gold sales by individuals and companies have been decreasing in the last two years.

Regarding an increase in foreign exchange reserve, as a result of an improvement in reserve management, interest income from financial investments reached USD 39.3 million, which was a 2.7 times increase of from 2006. In 2007, the average yield of the total reserve was 4.13 percent, not including cash and 4.09 percent including cash. The average yield, during the reporting year, on major currencies of financial investment such as U.S dollars, monetized gold, and euros are provided in Table 2.

Table1.2. Average nominal return on foreign exchange assets

Assets	USD	EUR	XAU	Total
Deposits	5.15	4	0.16	4.64
Current accounts	4.95	2.19	0	2.91
Bills	5.41	-0.41	0	4.38
Average yield	5.13	3.39	0.02	4.13

Source: Risk management unit, BOM, Jan 2008

Compared to the previous year, the average return on U.S dollars and EUR increased by 0.26, 0.58 percentage points respectively, resulting in 0.9 increases in the average return of total currencies. However, the average returns on monetized gold decreased by 0.22 percentage points.

1.4. Exchange rate movement

Nominal exchange rate

The nominal exchange rate of the togrog against the USD depreciated 0.4 percent from the end of the previous year, reaching MNT 1,169.97 by the end of 2007. The change in the togrog rate against the USD was less than 1 percent, which is considered stable by international standards.

In the reporting year, the average exchange rate weakened by MNT 9.12 or 0.77 percent, reaching MNT 1170.43 from the previous year. In 2007, Mongolia's CPI reduced by 6.3 percent or 188.8, although there was rapid increase in importing commodity prices. For example, oil products account for 33 percent of the total import in foreign currency and the monthly oil import increased by 20.5 percent from the previous year. Oil prices in Russia grew by 22.6 percent per ton due to the increase in world oil prices. Imports were higher than the previous year by 43.4 percent and the demand for foreign currency in the domestic market was high, due to the increase in aggregate demand, resulting from the tax reduction of business units by 5 percent, and the increase in government expenditure, salary and the investment in the "40 thousand homes" project.

Foreign investments in the domestic market reached USD 324.1 million, while the other domestic financial investment totaled USD 227.1. Money transfers of Mongolian citizens employed in foreign countries and the income from tourism was high, reaching USD 174.3 million and USD 110.7 million, respectively, as well as the business unit loans. All these factors met the foreign exchange market demand.

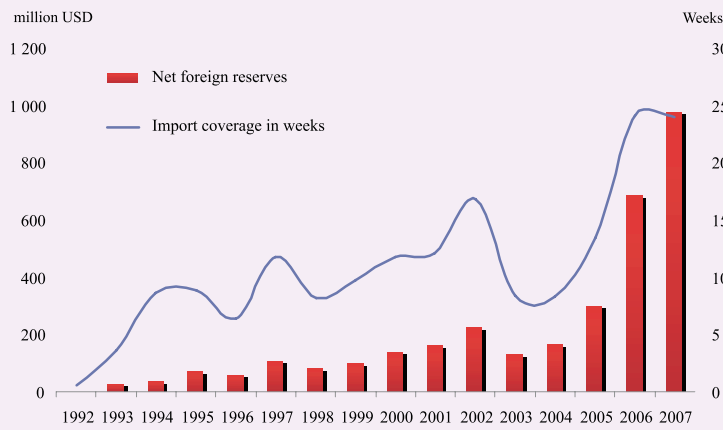


Figure 1.12

Net international reserves /1992-2007/

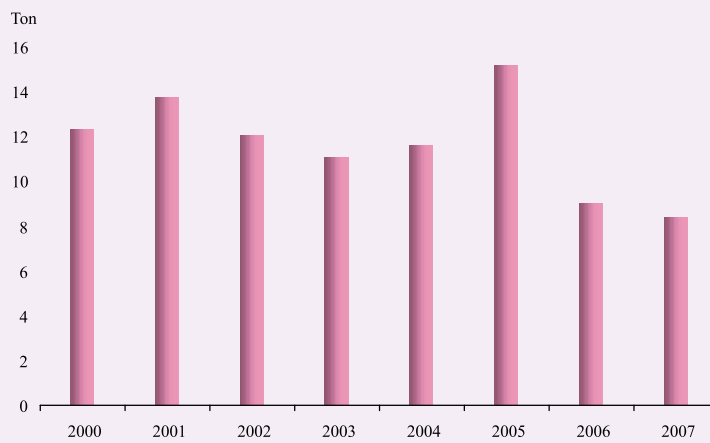


Table 1.13

Gold purchase of BOM

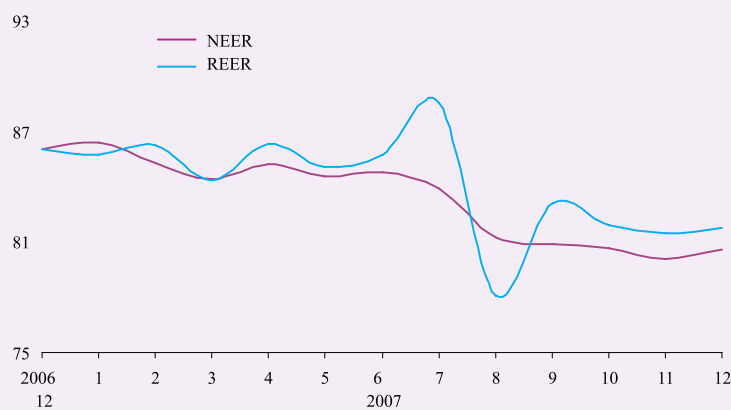


Figure 1.14.

REER-real effective exchange rate, NEER-nominal effective exchange rate

The Chinese Yuan represented 15 percent of foreign currency trade between Mongolia and China, which affected positively the togrog rate against the USD.

REER-real effective exchange rate, NEER-nominal effective exchange rate

The nominal effective exchange rate was 80.55³ and real effective exchange rate of togrog was 81.73⁴, which is 19.5 and 18.3 percent lower than that of 2000. Appreciation of neighboring countries' currencies against the USD led to the depreciation of the nominated exchange rate of the togrog.

³ The nominal exchange rate is the unadjusted weighted average value of a country's currency relative to all major currencies being traded within an index or pool of currencies..

⁴ The real effective exchange rate is the weighted average of a country's currency relative to an index or basket of other major currencies adjusted for the effects of inflation.

By the end of 2007, Mongolia's banking sector comprised a total of 16 commercial banks, which have 981 branches and 9,369 staff.

2.1. Main indicators of the Banking sector

In recent years, deposits of households and enterprises have steadily increased. In 2007, current accounts totaled MNT 707.9 billion, with an increase of 75.7 percent or MNT 304.9 billion, and savings totaled MNT 1,515.2 billion, with an increase of 46.0 percent or MNT 477.2 billion. This growth contributes to an expansion of the role of banks in intermediation in the economy.

Besides the growth of deposits, the capital of banks increased by 27.6 percent or MNT 81.5 billion, mainly as a result of an increase in profit and subordinated debt. Return on Assets, an indicator for the profitability of banks, was 2.5, which is higher than that of some industrialized and developed countries.

The increase in deposits and loans from other banks resulted in an increase in the total amount of banking sector assets of 51.2 percent or MNT 1,110.0 billion. Consequently, the total assets of the banking sector reached MNT 3.3 trillion, which is equal to 71.9 percent of GDP. This is 3.5 times higher than that of the banking crisis period between 1996 and 1998 and has reached the same level as that of countries such as India, Brazil and Hungary.

As the assets of the banking sector have risen, loans and financing to the private sector have steadily increased. For example, banks were granted MNT 60 billion in loans to about 1,700 borrowers in 2000. By the end of 2007, the outstanding loans of 16 commercial banks reached a total of MNT 2.1 trillion lent to about 500 thousand borrowers, which is 35 times higher than the outstanding loans in 2000.

The above figure shows that of 29.2 percent of total loans were issued to the trade sector, 15.6 percent were issued to the construction sector, 13.0 percent to the manufacturing sector, 7.6 percent to the agricultural sector, and 6.3 percent to the mining sector. In 2007, the proportions of construction sector and transportation and communication sector loans rose by 6.6, 2.6 points respectively, while the proportion of trade sector loans declined by 2.3 points. The proportion of loans issued to other sectors was relatively stable.

The proportion of non-performing loans among the total loans fell to 3.2 percent as banks strengthened their credit management and took measures to enhance assets quality.

In recent years banks not only intensively raised their loans, but also made certain progress in expanding the types of product, providing financial services to rural areas and distant provinces, such as soums and baghs, and financing low-income customers and SMEs. One example is the growth of bank branches in rural areas. As a result of intensive action taken by banks to extend the scope of their operations, the total number of branches has increased by 17.9 percent or by 149. In particular, Post bank branches increased by 90, Khan bank branches increased by 43, and Golomt bank branches increased by 12, which accounts for this dramatic change in the banking sector.

Table 2.1. Branches of Banks

	2007	2006	2005	2007 2006	2007 2005
1 Khan bank	466	423	397	43	69
2 Trade & Development bank	20	18	17	2	3
3 Savings bank	47	54	45	-7	2
4 Golomt bank	45	33	23	12	22
5 Mongol Post bank	230	140	86	90	144
6 Erel bank	5	5	5	0	0
7 Ulaanbaatar City bank	9	9	9	0	0
8 Capital bank	27	25	18	2	9
9 Transport & Development bank	3	3	4	0	-1
10 Credit bank	7	10	9	-3	-2
11 Zoos bank	37	32	33	5	4
12 Anod bank	26	21	23	5	3
13 Capitrion bank	17	18	20	-1	-3
14 XAC bank	40	39	40	1	0
15 National Investment bank	0	1	1	-1	-1
16 Chinggis Khan bank	2	1	1	1	1
Total	981	832	731	149	250

Newly established branches contribute to the reduction in interest rates of loans granted in rural areas and encourage competition in the banking sector.

2.2. Structure of Assets and Liabilities of the Banking Sector

In 2007, loan activities of banks intensified, and the share of loans in total assets increased by 7.5 points, reaching 64.5 percent. As a result, the proportion of cash in the total assets declined to 24.6 percent.

The figure shows that deposits compose about 70 percent of total liabilities. Growth of current accounts soared in 2007. The share of other liabilities increased due to banks attracting more funds through savings certificates and other financial instruments.

Based on assets and liabilities structure, the following conclusions can be drawn:

- The high demand for loans resulted in a decrease of cash at banks.
- The proportion of current accounts, which are relatively cheap funds, has been increased.

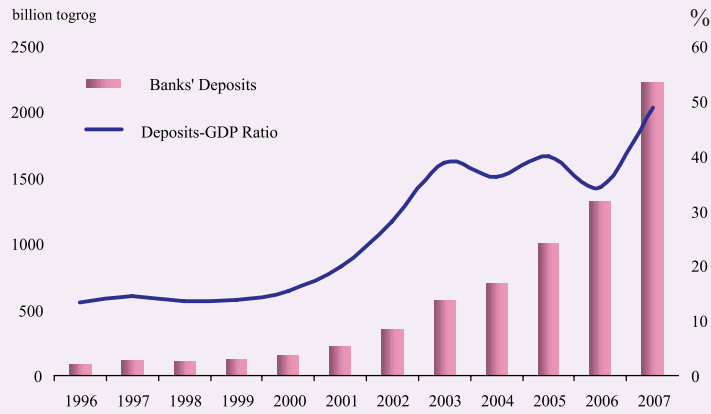


Figure 2.1.
Banks' Deposits
and Deposits-
GDP Ratio

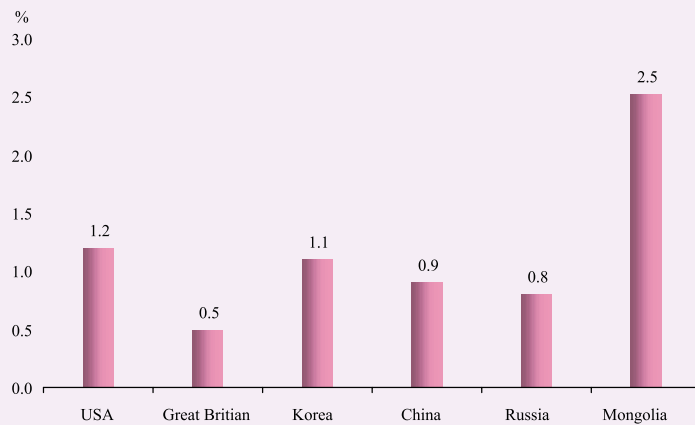


Figure 2.2.
Banks' Profitability
- Return on Assets

Source: "Global Financial Stability Report" IMF (except Mongolia). Data, end of 2006 for UK and China, and as of March, 2007 for other countries



Figure 2.3.
Banking sector
assets to GDP ratio

Figure 2.4.
Total
Outstanding
Loans by
Economic Sector

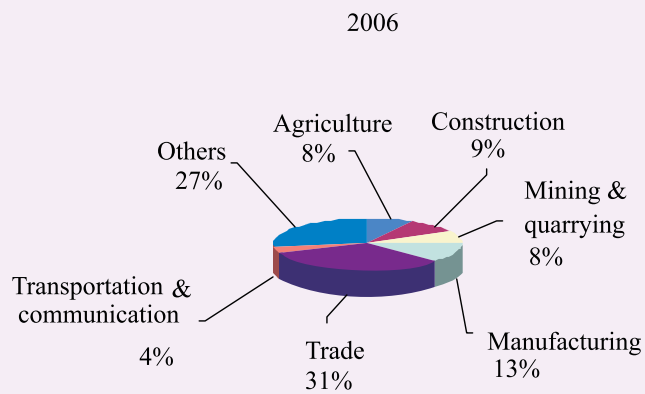
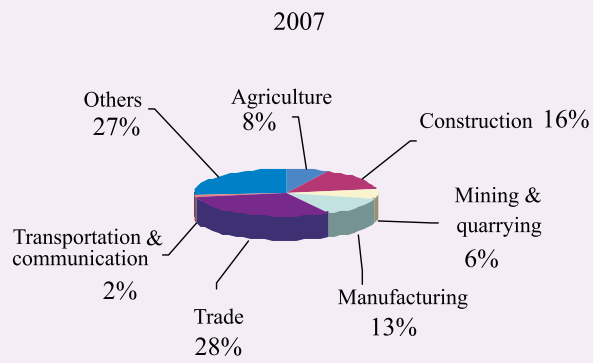
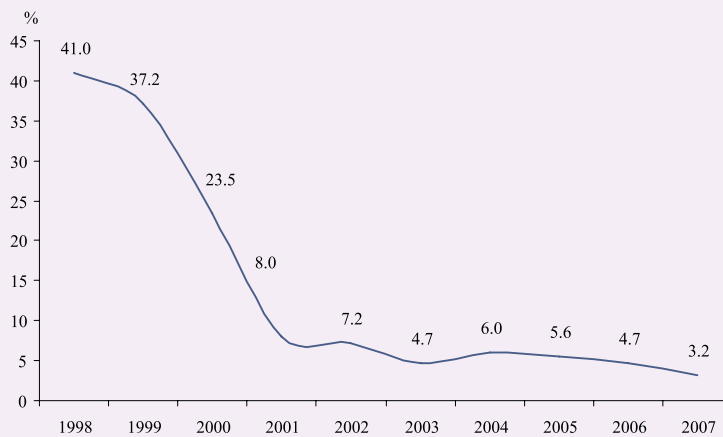


Figure 2.5.
NPL Ratio



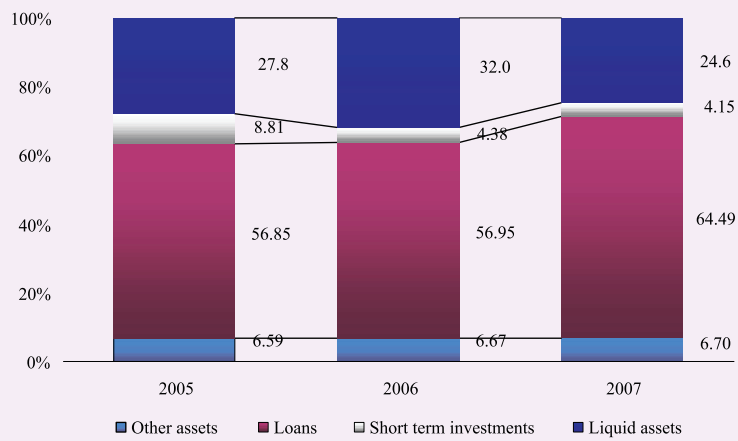


Figure 2.6.
Assets
Structure

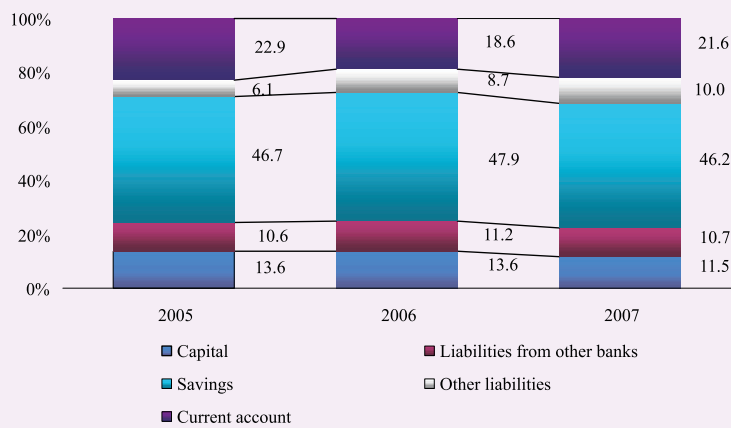


Figure 2.7.
Liabilities Structure

2.3. Prudential Ratios of Banking Sector

Capital Adequacy

The fact that banks' profitability soared, subordinated debts increased, and the proportion of non-performing loans declined, all contributed to keep the banks' prudential ratios at an adequate level. The capital adequacy ratio, which is one of the main indicators of the capability of banks to absorb risks, has been 14-24 percent since 1999, which is 1.8-3 times higher than the international standard set by the Basel Committee. The following figure compares the capital adequacy of the Mongolian banking sector with that of other developed and transition countries.

Competition among banks increased and the use of available funds was enhanced, as a result of which the capital adequacy ratio fell to 14.2 percent in 2007.

Foreign currency risk

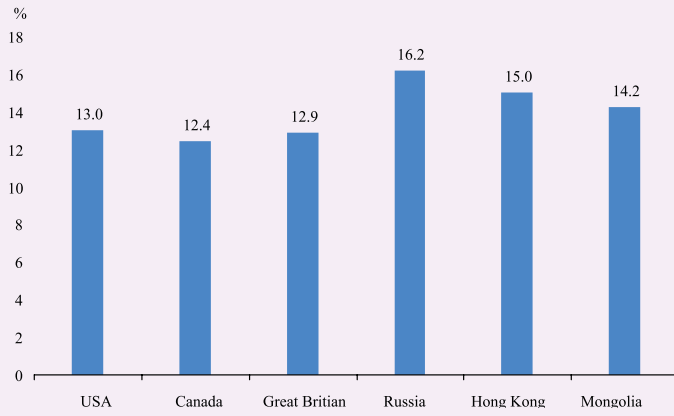
According to regulations issued by the Bank of Mongolia, banks have to keep the ratio of an open position for one currency within +/-15 percent, and for the total of all currencies within +/-40 percent. The average indicator for the banking system is 30.1 percent by end of 2007, which is within the limits established by the Bank of Mongolia.

In the reporting year, foreign currency assets increased by 17.5 percent or MNT 189.5 billion, reaching MNT 1,270.8 billion, and foreign currency liabilities increased by 8.4 percent or MNT 78.8 billion, reaching MNT 1,012.6 billion. In particular, the proportion of foreign currency assets in total assets fell by 8.4 points to 36.8 percent, while the share of foreign currency liabilities in total liabilities rose by 0.3 points to 32.3 percent. This is owing to the fact that the togrog rate is relatively stable and foreign currency transaction is declining as money supply is increasing.

Banks have been increasing assets and loans based on growth of funds, hereby extending their financial intermediation role in the economy. This expansion of banks' operations is within the prudential ratio limits imposed by the Bank of Mongolia, and maintained their prudent and stable development.

BOX 6. Development of Microfinancing

Micro credit is a lending of small loans to low income and impoverished enterprises to encourage their creativity and capacity to operate small businesses and workshops. During the development of microfinance, its activities have spread into different areas of services, such as loans, deposit, insurance etc. The idea of micro credit started in Bangladesh and Brazil during 1930s, and spread to other countries during the 1980s. The main users of these loans are those who have low income, and therefore do not qualify for bank loans. Most of these people are capable of operating small businesses such as raising livestock, leasing kiosks, engaging in cross border trading, opening up small cafes, cultivating land, raising crops, assembling products and operating small motels, cafes and stores. There are few financial institutions which offer micro credit services. Those institutions which do include intermediary commercial banks, non bank financial institutions, credit and saving cooperatives, insurance companies, financial leasing companies,



Source: "Global Financial Stability Report" IMF (except Mongolia). Data, end of 2006 for UK and China, and as of March, 2007 for other countries

Figure 2.8.

Capital Adequacy Ratio, by countries

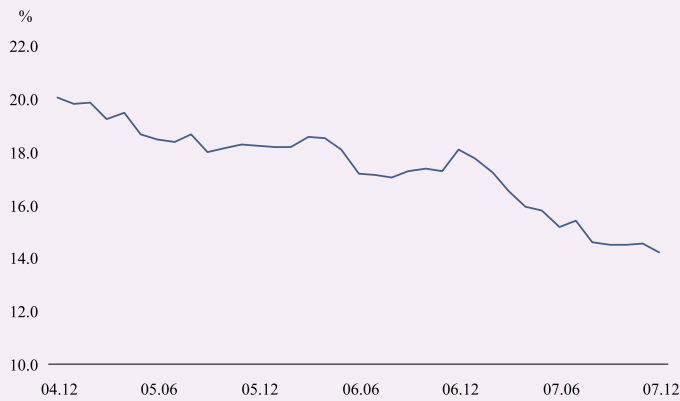


Figure 2.9.

Capital Adequacy Ratio, by year

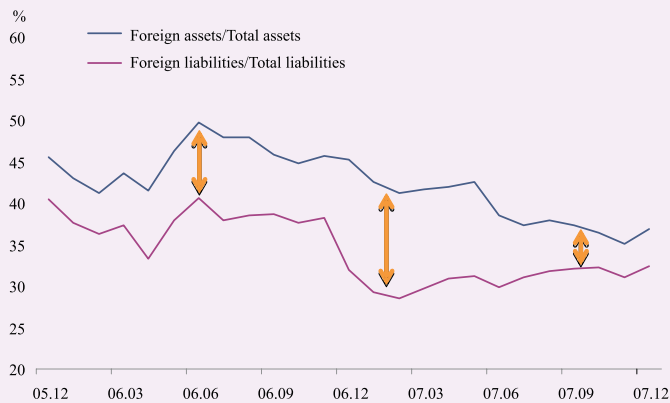


Figure 2.10.

Share of Foreign Currency Assets and Liabilities

pawnshops, non-government agencies and government funds. In most cases, non-governmental institutions offer microfinancing services to businesses and individuals with low income. Users of these services fall into two categories: small business owners who want to broaden their businesses and other individuals, such as employees, students and retirees who want to improve their lives. In recent years, microfinancing has been developing fast all around the world. According to research, the number of people who have improved their lives with small loans has grown from 7.6 million in 1997 to 33.8 million in 2005. The importance of micro credit is the role it has taken in reducing unemployment and poverty by creating new workplaces and introducing new technology, new products and by interconnecting small businesses with large ones.

The development of microfinance in our country was limited, in the early stages by narrow scope of projects and activities of government and donor organizations. Since 1998 microfinance has developed into an effective instrument in the reduction of poverty and the increase of wealth and income. Microfinancing is provided not only by banks, but also by non-bank financial institutions, savings and loan cooperatives and other non-government, public institutions, which are offering their services in local settlements and provinces. After reviewing the historical development of microfinance in our country in 1994, the Government of Mongolia, in cooperation with the World Bank, started implementing a program to reduce poverty. In 1996 the first Savings and loan cooperative, which is one of the main providers of microfinance, was established, and in 1997 the UNDP started the project "Micro Start" through 6 non-government institutions. In 1999 the "Khas" institution was established, which was the first non-bank financial institution. In 2002 the first law on the activities of non-bank financial institution's activities was passed. In 2004 the national conference of microfinance and business was organized, and the Government of Mongolia designated the year 2005 as the Year of Microfinance. In 2006 the Financial Regulatory Commission was established in order to supervise the activities of microfinance. The microfinance institutions in our country provide services not only for micro enterprises, but also for low income people, state and public employees, private sector workers, pensioner, the unemployed and students. Microfinance services, in particular micro credit services, were specified as one of the main instruments in the millennium development goals of Mongolia, to accomplish by 2015, the purpose of reducing by half the poverty level, compared to the poverty levels of 1990.

At the end of the second quarter of 2007, preliminary calculations showed that 137 savings and credit cooperatives, 181 non-bank financial institutions and 16 banks were providing microfinance with approximately 670 billion togrog of outstanding loans, which is 30 percent of financial sectors' total loan and 15 percent of GDP. 54.3 of survey participants in the survey conducted by the Bank of Mongolia in 2007, stated that it is possible to conduct business by borrowing micro credit, which compares to similar level results in surveys conducted in previous years (in 2005 59.1 percent and in 2006 57.1 percent). According to the average survey results in the last three years, 28.3 percent of micro credit borrowers are conducting their business activities in the trading sector and 10.7 percent are conducting activities in small and middle enterprises. Stock-breeding (8.2 percent), conducting services or catering (7.5 percent), planting vegetables (6.9 percent), agriculture (6.6) are the next highest percentages with

nearly the same amounts. It is clear from these findings, that tourism (3.2) and hotel businesses (1.4) are not commonly micro credit borrowers. 33 percent of the total respondents answered that more than 3 million MNT is necessary to conduct micro business activities, while 20.2 percent answered that it is possible to provide business activities with micro credit of between one and two million MNT. Therefore, in the current situation, it is clear that more than one million MNT is optimal to provide micro business activities. The majority of respondents stated that the most adequate period in which to conduct micro business activities was the longest one; namely from 9 months to one year, which is similar to the opinion of respondents in previous years (in 2005 60.8 percent and in 2006 61.2 percent). According to the report "Research on Mongolian microfinancing sector", the percentage of households which took out micro credit was 1 percent in 1998, rose to 26 percent in 2004, while in 2007, the survey indicates that this number reached 40 percent. The majority of the survey participants have taken between 1 and 5 small loans from Banks and financial institutions to create a business. More than half of the borrowers stated that they had profited from the loan and had now acquired enough capital for their business. These results indicate the positive effect of this financial activity.

According to the research, 50 percent of citizens are able to get small loans and 40 percent took out 1 to 5 loans to operate small business. It shows that the most adequate amount to conduct micro business activities is 1 million MNT and the most adequate period is 9 months or more. More than half of the loan takers raised capital to conduct business activities. The research survey and development path of micro finance clarifies the success of micro finance in Mongo.

The following steps need to be taken in order to improve the micro financing:

- Inform the public of the importance of micro financing and conducting micro business
- Diversify the risk of clustering financial infrastructure
- Develop micro financing in relation to its distinctive countryside features
- Implement unified Government regulations on micro financing, activate its operation and inform the public
- Improve law enforcement and legislation of micro financing
- Prompt the betterment of new micro financing services
- Enhance the participation of donor countries, intensify the project implementation
- Heighten the involvement of non-governmental organizations in micro financing activities
- Create a favorable environment in which to conduct micro business, and motivate public interest in conducting micro business under the "Small business to large corporation" motto.

Rapid implementation of this agenda will benefit our country, which has 35 percent of the population under the poverty level, not only by creating new workplaces but also by contributing to the economic development.

2.4. Banking supervision

The activities of banks intensified in the reporting period. The financial sector in Mongolia mainly consists of banks, which comprise about 95 percent of assets in the financial sector. The Bank of Mongolia supervises banks to ensure the stability of financial sector, which is one of its main goals stated in the Central Banking Law, within the framework of related laws and regulations.

As the role of banks in the economy increases, it is vital to make the supervision framework more prudent and banks need to manage their risks efficiently, to improve corporate governance, and to adequately define their strategic aims.

We paid heed to strategic aims such as improving the quality and scope of financial intermediation, ensuring the stability of the financial sector, preventing financial crises, enhancing the confidence of investors and depositors in the banking sector, creating a favorable environment for banks, protecting the interests of depositors and restraining illegal activities through banks or other financial institutions. All these aims are stated in “Short-term strategy of reform and development of banking sector”.

As a result of the policy that the Bank of Mongolia has implemented in order to enhance stability and support the growth of financial sector, the confidence of customers and depositors in the credibility of the banking sector increased, as a result of which the scope of banks’ operations is expanding and the profitability of banks has improved.

Within the framework of this supervision, the Bank of Mongolia has been refining its supervision policy and methods, such as making assessment of the financial sector, improving corporate governance, and enhancing prudential regulation, as well as defining future direction, and preventing financial crises.

Main Goals of supervision

The Supervision department of the Bank of Mongolia carries out its activities with the main goals of ensuring the stability of the financial sector, and accomplishing the state monetary policy in accordance with the Law on Central bank and other regulations. The following issues determined the main goals of the State Monetary Policy Guideline for the year 2007, which was approved by the State Great Khural:

Develop a regulatory framework for consolidated supervision in financial institutions and make supervision of banks fully compliant with international standards:

- Improve supervisory regulations related to the treasury management.
- Develop regulations for consolidated supervision of connected financial institutions, and collaborate with related agencies.
- Establish financial intelligence unit and activate its operations.

Improve banking regulatory framework:

- Develop legislation of deposits insurance.
- Improve corporate governance of the Bank of Mongolia; enhance supervision of banks, makes amendments to the Central Banking law and the Banking law related to supporting competition and new financial services.
- Develop regulatory framework to allow Bank of Mongolia to attend civil legislation operations and improve transparency.

Supervisory Framework

The current system of supervision of banks is carried out in accordance with the common and accepted structure of international banking and financial organizations, and the BOM has made adjustments in the sophistication of the system. As the activities of the banking and financial organizations widen to embrace the latest methods and technologies, as has happened in recent years, banks face more risks. Therefore, to conduct supervision efficiently, the direction of supervision based on regulations and rules was changed into a risk based analysis. Thus, supervision operations were focused on evaluating and measuring risk, and encouraging customers' oversight of banks. As of now, the BOM has been harmonizing its rules and regulations with international standards, especially those of the Basel Committee.

1. Supervision of banks

In the reporting year, comprehensive on-site supervision of the operations, finances and solvency of 14 banks was conducted according to schedule, following the framework of instructions, confirmed by the Governor of the BOM. As a result, analyses and reports on these banks were discussed by the Board of Directors, and subsequent suggestions implemented by the banks. Comprehensive supervision involved preparation for comprehensive supervision, monitoring of solvency, management structure, and all financial reports, preparation of documents, creation of reports, and drawing up a state inspector's report on issues that breach the laws and regulations. Reports of the results of the supervision were delivered to and accepted by the banks' management. The results of the discussion by the Board of Directors were made into official notes, signed by the governor of the BOM, and delivered to the Policy regulation division. In 2007, onsite supervisors prepared consolidated balance sheets for financial holdings, calculated prudential ratios, checked and evaluated compliance with the principles of corporate governance and the "Anti-money laundering and counter terrorism financing law", and issued guidance and advice to banks beside its main duties within onsite supervision. A total of 91 supervisors (in duplicated numbers) spent 1365 work days in onsite supervision. In addition, partial onsite supervision was performed regarding intra-bank loans and deposits.

Through off-site supervision, financial solvency was estimated on the basis of banks' profitability, assets quality indicators, and other data and their dynamics. The required actions were taken in the case of banks that had weaker solvency in accordance with the regulations.

In addition to the above, the department has been paying special attention to increasing the role of internal and external audits of banking operations, and to efficient management structure and improvement of personnel training system in banks.

2. Steps taken to improve supervision

In addition to refining instructions and regulations on onsite and offsite supervision on banks, in accordance with the goal of ensuring the stability of the banking and financial sector, the Department of Supervision has made specific recommendations and approaches to accommodate these activities to international standards. The department of supervision is working as one of the project implementers, which include other governmental agencies, to provide necessary information and manage on-lending of international financial organizations and donor countries' funding, to ensure economic growth and solve social problems, such as the poor housing conditions, unemployment and poverty.

By request of the Bank of Mongolia, the IMF and the World Bank performed a “Financial Sector Assessment Program” in Mongolia. This program evaluates the current situation of the financial sector and the regulation framework, and delivers recommendations for future work based on the “Core principles for effective banking supervision” issued by the Basel Committee. The supervision department collaborated with the members of the program in terms of delivering information and other necessary means. According to the preliminary report of the “Financial Sector Assessment Program”, the performance of the Mongolian financial sector is relatively good compared to those countries which have the closest rate of social and economic development to Mongolia.

In its activities, the Department of Supervision follows international standards and instructions, in addition to ensuring timely reflection of their changes in the laws and regulations. Amendments to the “Prudential ratios regulation of banks” was approved on October 30, 2007 by order No. 491 of the Governor of the Bank of Mongolia because of the Basel Committee’s new capital framework and mortgage market, which has been adopted in Mongolia. Changes to the regulation include making market risk requirements more compliant with international standards; making calculation of capital adequacy more adequate, and lowering risk weights of mortgage-backed securities issued by Mongolian Mortgage Corporation to support the development of a secondary mortgage market.

The main goals of the supervision on banks are to ensure the stability of the financial market and to protect customers’ property. In 2005, the “Law on Deposit Insurance” was drafted by the BOM, in association with the Ministry of Finance and Ministry of Justice and Domestic Affairs, which was subsequently supported by the Government and submitted for consideration by the State Great Khural.

The Bank of Mongolia, along with the Japanese International Cooperation Agency (JICA) started the Management information system project to improve BOM-s data sharing process with banks, to increase productivity of supervisors, and to make the data consistent. This project will fully automate BOM-s data sharing with banks. Also included in this project are the aims of creating an information technology inspection system and enhancing corporate governance at banks.

A “Financial Stability Council” was established, consisting of the Governor of the BOM, the Minister of Finance, and the Chairman of the FRC. The council shall monitor soundness and stability of the financial system, informing the public of a potential financial crisis and in pertinent cases, work with the management of financial institutions, provide financial aid and oversee effective cooperation between them.

In the reporting period, the Department of Supervision prepared and adopted the following rules, regulations, instructions and researches:

- Periodic checks are to be made in compliance with “Corporate governance regulation of banks”, which was approved on December 2006, and recommendations are given for banks.
- Risk weights to be used for CAMELS approach were estimated, using econometric methods. Relevant changes to the regulations are being developed.
- A survey of the banks’ large borrowers and their financial statements is conducted quarterly.
- Improvements in the software unit of the Credit Information Bureau were planned and requirement definitions for connecting the credit information database to the State registration office for property rights were developed.
- A draft of the first “Financial stability report” was developed and the structure, developed, based on international practices.

- The draft of the “Regulation on sample ethics of bank staff” was developed to introduce banks and their management to which actions, inaction, habits, and experience are not ethical for bank staff.
- Amendments to the “Bank’s accounting regulations” were developed to add a section related to the operation of financial derivatives, in order to make the regulations more compliant with IAS.
- The “Regulation on knowing your customer, to enable banks to prevent money laundering and the financing of terrorism” was developed and approved by order of the Governor of the Bank of Mongolia and delivered to banks.

Human resources management

The Bank of Mongolia is operationally fully functional and its management structure includes 6 departments, 2 independent units, 9 divisions and affiliated units of those 9 divisions, 1 clearing center, 17 branches and a representative office in London, UK.

The Bank of Mongolia employs 317 staff (including staff on maternity leave and child care), of which 49.5 percent are female and 50.5 percent are male employees. 71 percent of the total number of employees is core staff.

For the reporting year (2007), 96 employees were sent on 89 courses and workshops and the Bank pursued a policy of delivering training to the staff in the areas of the newly established Financial Information Unit, the Risk management Unit, Monetary policy, supervision and accounting. This breaks down into the following staff being involved in a number of training courses/workshops: 3 staff of Legal division (4), 5 staff of the Risk Management Unit (7 courses), 2 staff of Financial Information Unit (6), 10 staff of Monetary policy and research department (13 courses), 17 staff of Supervision department (21), 10 staff of Accounting and Information technology department (12 courses), as well as 17 managers of the branch offices of the Bank of Mongolia were sent on refresher training courses in Germany. In addition, managers and staff were involved in 26 meetings and conferences held within and outside of the country.

In 2007, 5 employees returned to Bank of Mongolia from their secondments in overseas and domestic companies.

Six other employees had been on long term studies to Australia and Japan and, having completed their studies, returned to the Bank of Mongolia. At present, the Bank of Mongolia employs 1 person with a PhD, 5 other employees who are studying for their PhD, and 56 staff with a Master's Degree.

21 specialists are being trained in the USA, Australia and Japan after having signed training contracts with the Bank of Mongolia, through the support provided to the staff, to enable them to be trained. Such trainings arranged under the Government programs of developed countries and international organizations ensure the staff acquires internationally accepted knowledge and skills.

76 percent of all the staff is specialized in banking, finance, highly professional engineering and economics, while 38 percent of all service employees have attained higher education. For the reporting year, all staff underwent health screening and medical check-ups and the Bank spent over MNT 15 million, in accordance with the resolution issued by the Governor of the Bank, to cover the treatment costs and aids to staff, in compliance with Civil service law and relevant legislations. This has shown a great impact on staff health and significant life improvement.

In two instances, one-off old age-allowances were provided to retired people, in accordance with the regulation on retiree benefits, which was issued by the Bank of Mongolia.

Risk management

The Bank of Mongolia is aiming to establish a comprehensive risk management policy in compliance with the mission of the Central bank.

In February 2007, the Risk Management Unit (RMU) was established with the objectives of formulating risk management policy, identifying measures and monitoring financial and operational risks that may arise from the activities of the Bank of Mongolia. During the

last period, the Risk Management Unit has primarily focused on identifying, measuring and preventing risks in the area of foreign exchange reserve management and foreign currency operations.

Within the policy framework of enhancing liquidity, safety and return of the foreign exchange reserve, the Risk Management Unit has formulated a long-term risk management strategy, in accordance with the objectives of the foreign exchange reserve management. In the long-term risk management strategy, currency composition, asset composition and duration of the foreign exchange reserve portfolio and eligible instruments for investment were established within acceptable risk parameters. The long term investment portfolio will be managed against a highly liquid, transparent, and replicable external benchmark which is appropriate for the risk appetite of the Bank of Mongolia.

The RMU is cooperating with Deutsche Bundesbank specialists in the area of daily measurement and monitoring of market valuation of investments, market risk and credit risk of the foreign exchange reserve portfolio.

Internal Audit

The internal Audit Department of BOM carried out activities in accordance with the long term audit program for 2007-2011 and the annual audit plan for 2007. The audit assignments were focused towards monitoring the compliance of activities on the implementation of the State Monetary Policy by departments, branches and other structures of the BOM with Mongolian legislation; prevention and management of potential and actual risks; providing bank governance and management with recommendations and instructions aimed at the correction and elimination of recognized shortcomings.

During the reporting year, the Internal Audit Department conducted assignments covering all, departments and branches, as well as particular areas of performance within them; took prompt corrective action on every failure and carried out necessary follow-up examinations. Audit assignments was based on an assessment of risk profiles and aimed to cover all significant risks in BOM operations.

Financial Information unit of Mongolia

Conventions, recommendations, and resolutions have been issued by international organizations in order to involve the financial institutions in combating terrorists and terrorist financing. Identifying and preventing the flow of funds being used by terrorists have proven to be an effective method of combating terrorism. The system for combating terrorism was integrated into the system for fighting against money laundering since the both crimes have similar application and use. Mongolia recognized and accepted the effort of the world community in combating against terrorism and money laundering, by adopting the law on combating money laundering and terrorist financing (AMLCFT law) in July 8, 2006. According to AMLCFT law, banks and other financial institutions have an obligation to identify and verify their customers, report suspicious transactions develop and implement internal policies for the purpose of implementation of the AMLCFT law and keep records of transactions and customers. Pursuant to the AMLCFT law, the Financial Information Unit (FIU), the central agency is responsible for monitoring the implementation of the law.

The FIU is responsible for receiving reports of suspicious transactions from the financial institutions, analyzing them and disseminating analyzed information to relevant law enforcement agencies for further investigation. The FIU has a special status - an independent operational framework within the Bank of Mongolia.

The FIU was established within the structure of the Bank of Mongolia in November 29, 2006. The FIU's main focus in 2007 was to develop the AMLCFT policies and regulations of FIU. FIU mainly focused on building a strong functional framework focused on providing the security of confidential information as well as a rapid flow of information to the law enforcement agencies, in order to assist their investigations of money laundering and other predicate crimes.

In 2007, the FIU conducted a number of trainings designed for compliance officers of Mongolian banks as well as for FIU staff members, for the purpose of enhancing the awareness and improving the expertise of banks staff members in AMLCFT. The FIU staff members actively participated in international meetings and conventions and reported its developments and future challenges to peer countries.

In 2007, the FIU received 2 technical assistances from the Asian Development Bank. The World Bank and a few other countries expressed their willingness to invest into the Mongolian AMLCFT system.

In the reporting year of 2007, the FIU started research and analysis of money laundering typologies and issued some of the results to banks compliance officers for the purpose of assisting them in their fight against money laundering, terrorist financing and other financial crimes. Find APG report at (www.apgml.org).

Development of Payment system objectives and its implementation

Cashless payment

In order to spur card usage, banks are installing free POS terminals at commercial sites. Also banks are setting up POS terminals to limit cash payments at their branches, where customer payments, especially public service and utility companies' payments, are being processed. Both the number of newly issued cards and the number of card payments are increasing. In 2007, the number of cardholders reached 538.9 thousand. In the reporting year, the total value of card payments was 651.5 billion MNT and the volume of such payments was 4.4 million.

Currently there are two card networks used in Mongolia, in which banks receive card payments. The networks only process their own ATC and POS terminal payments. Therefore the Bank of Mongolia is working toward establishing consolidated card clearing network to standardize processing, receiving, issuing of payment cards, and enable switching between different networks ATM and POS terminals' payments.

Also the Bank of Mongolia considers, as one of its top priorities, transforming the high value interbank payments system into Real Time Gross Settlement System or RTGS. The introduction of RTGS would improve implementation of monetary policy, support the financial market, payment system risk management, and provide banks with the possibility of bringing in new products and services. In addition, its introduction will build an infrastructure for developing a real time foreign exchange and securities settlement system in accordance with international standards.

Interbank Settlements

As the Mongolian economy continues to expand, the number of interbank transactions is increasing notably. The ratio of interbank transactions to GDP reached 4.3 in 2007. Such robust growth implies restored public confidence in the banking system, which resulted in increased payments made through banks.

We can see that most active periods are Q2 and the Q4. This has to do with the end of the year (Q4) and the activation of individual and business unit transactions in regards to active construction and the mining season (Q2). The first quarter (Q1) is the least active quarter due to the low number of transactions in relation to the start of fiscal year.

Table 3.1. Number of interbank transaction /in thousands/

	2002	2003	2004	2005	2006	2007
1 quarter	222.2	406.4	586.3	620.2	689.7	758.7
difference(%)	22.9	82.9	44.3	5.8	11.2	10
2 quarter	287.1	611.7	793.5	797.5	851.5	968.3
difference(%)	25.6	113.1	29.7	0.5	6.8	13.7
3 quarter	295.6	561.9	617.3	541.6	762.8	829.1
difference(%)	56.9	90.1	9.9	-12.3	40.8	8.7
4 quarter	405.9	636.8	727.1	391	910.6	1098.5
difference(%)	68.3	56.9	14.2	-46.2	132.9	20.6
Total	1210.8	2216.8	2724.2	2350.3	3214.6	3654.6
difference(%)	44.3	83.1	22.9	-13.7	36.8	13.7

Monthly volume and value of interbank transactions were less in number in January, February, July and November, whereas growth was observed in the other months. We believe this decline in the volume and value of transactions reflects the comparatively fewer number of working days in the months mentioned above.

Within the scope of modernizing the payment system, the Switch Clearing Center was established and launched on the 1st of February 2006. Inter-banks payments are now separated into low and high-value payments (LVP and HVP) with a 1,000,000 MNT limit. In 2007, there were a total of 3.7 million transactions, which amounted to MNT 14.3 trillion. Out of the total transaction value, MNT 401.9 billion or 2.8 percent was LVP, whereas MNT 13.9 trillion or 97.2 percent was HVP. However, LVP accounted for 83 percent of the total transaction volume.

The average value of LVP was equal to 120-150 thousand MNT and the average value of HVP was 20-25 million MNT.

Table 3. 2. Interbank transaction value /million MNT/

	2002	2003	2004	2005	2006	2007
1 quarter	471.5	850.2	1,086.4	1,481.8	1,787.6	2,358.7
difference(%)	13.9	80.3	27.8	36.4	20.6	31.9
2 quarter	582.0	1,000.4	1,429.3	1,809.4	2,742.8	3,421.2
difference(%)	33.2	71.9	42.9	26.6	51.6	24.7
3 quarter	718.2	986.8	1,400.2	2,057.2	2,145.7	3,312.1
difference(%)	45.1	37.4	41.9	46.9	4.3	54.3
4 quarter	972.3	1,249.5	1,746.3	2,222.7	2,847.4	5,230.1
difference(%)	81.6	28.5	39.8	27.3	28.1	83.7
Total	2,744.0	4,087.0	5,662.1	7,571.1	9,523.5	14,322.2
difference(%)	45.9	48.9	38.5	33.7	25.8	50.4

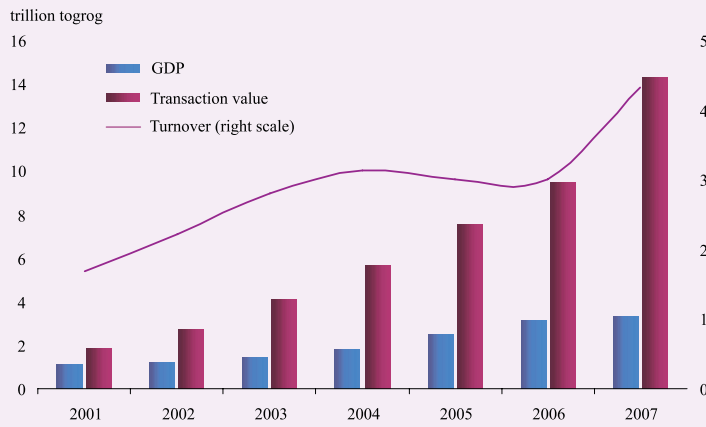


Figure 3.1.
GDP turnover and Interbank settlement

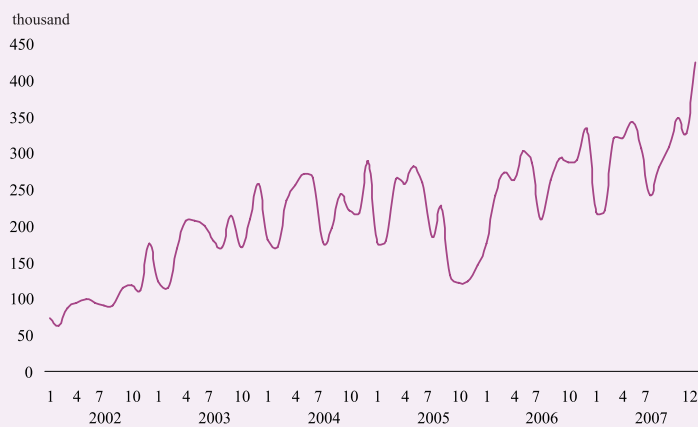


Figure 3.2.
Number of interbank transactions

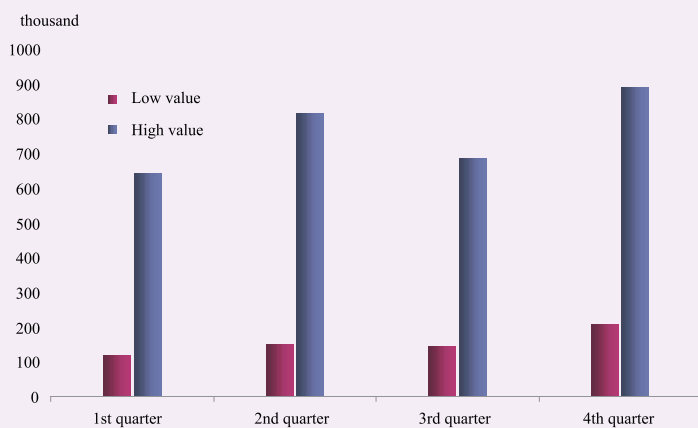


Figure 3.3.
Volume of high-value and low-value interbank transactions

Figure 3.4.

Interbank transactions volume

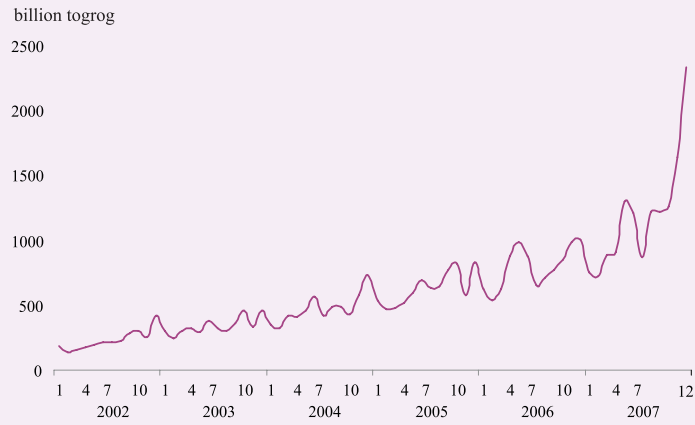


Figure 3.5.

Average value of interbank settlement

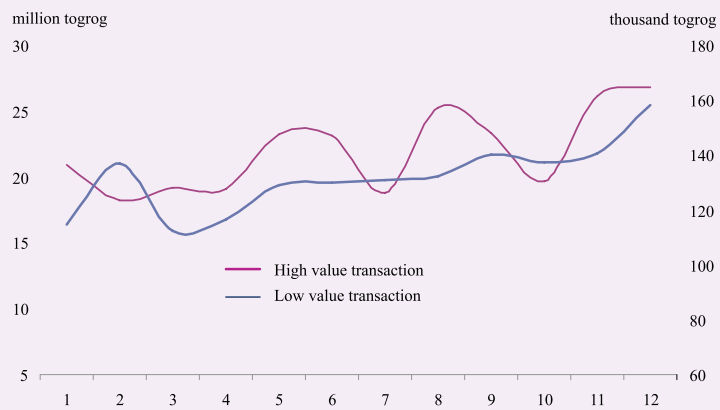


Figure 3.6.

Number of high-value and low-value interbank transactions

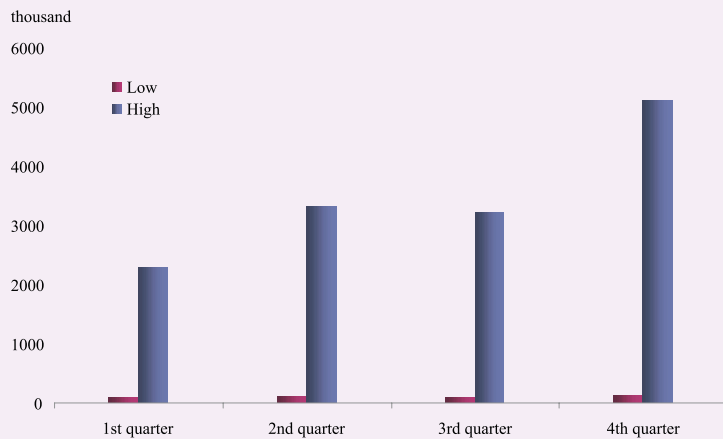




Figure 3.7.

Banks participation in interbank settlement

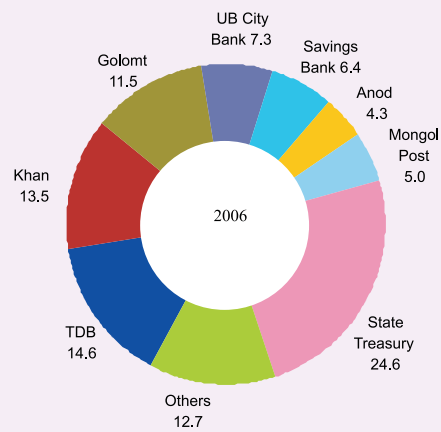
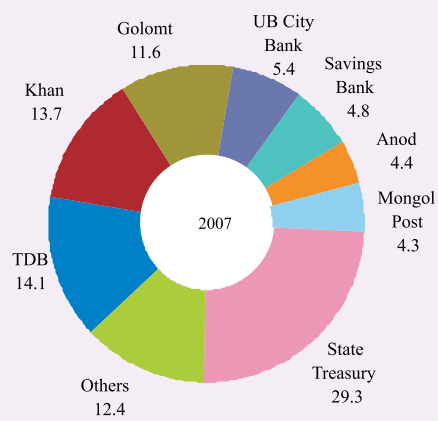


Figure 3.8.

Percentage of transaction value, by commercial banks



From the following diagram we can see that in 2007 the Treasury held the highest percentage 29.3 percent, TDB 14.1 percent, KHAN bank 13.7 percent, Golomt Bank 11.6 percent, Ulaanbaatar City bank 5.4 percent, Savings banks 4.8 percent, Mongol Post Bank 4.3 percent, Anod bank 4.4 percent, while others held 12.4 percent. In 2007, compared to previous year, the following banks had transaction values decreased as follows: TDB 0.5 percent, Savings bank 1.7 percent, Ulaanbaatar City Bank 1.9 percent, Mongol Post Bank 0.7 percent, and others decreased 0.2 percent. However, the transaction value of the following banks grew, compared to previous year; Khan bank 0.2 percent, Golomt bank 0.1 percent, Ministry of Finance 4.7 percent, and the Ulaanbaatar City bank 0.2 percent.

Information Technology

The Information Technology Department of the Bank of Mongolia (BOM) has the responsibility of maintaining the IT infrastructure of the inter-bank settlement system and information exchange activities within the Mongolian banking system and of providing IT applications for the internal use of the BOM. Our main objective is to provide a reliable network system between Commercial banks and the BOM in a highly secure manner, and to implement the latest IT innovations in the daily operations of the BOM.

In order to improve the internal and inter-bank payment systems, to implement new advanced technology in the payment systems, and to minimize inter-bank payment risks in meeting with international accounting standards, the BOM has upgraded its accounting system, and has created new program modules.

Furthermore, the BOM has successfully implemented new software upgrades and security enhancements for the International Payment SWIFT System. Road-show training was organized for banks in alliance with the SWIFT training center and 32 employees from 15 banks participated.

In order to develop an efficient, enhanced and integrated IT system for the internal affairs of the BOM, our main activities were focused on the development of the following software applications: information system about cooperating foreign banks and financial organizations, management information system, work time registration system and library and human resource management modules.

Development of banking laws and regulations

The law on Mongolia development fund was adopted by the Parliament of Mongolia in 2007. According to the law, Mongolia development fund assets will be kept in a specially designated account in the Bank of Mongolia and shall pay the interest on the outstanding balance. The interest rate shall be set by agreement between the Central bank and the Government of Mongolia.

Legislation has been adopted recently to implement and support the development of small and medium enterprises in Mongolia and to enable a sustainable supply of financial resources, enshrined in the Law on small and medium enterprises.

It is designed to clarify the role and responsibility of financial institutions, create small and medium enterprise financing funds coordinating with banks and non bank financial institutions provide long term soft loans and guarantees and involve them in international donor's projects and technical assistance.

Foreign cooperation

In 2007, the BOM worked towards upgrading the sovereign credit rating of the country.

On December 12th 2007, the international rating agency, Standard and Poor, upgraded the foreign and local currency long-term sovereign credit rating on Mongolia from “B+” to “BB-” and evaluated it as “stable”. As a result of active cooperation of the BOM with the foreign rating agency, Fitch ratings, the outlook on the Long-term Foreign and Local currency IDR of Mongolia to Positive from Stable has been revised, while affirming both ratings at “B+”. At the same time, the agency affirmed the country’s Short-term IDR of “B” and the Country Ceiling at “B+”.

Macro economic indicators except inflation were positive. The current account position was likely to clock 7 percent of GDP, thanks mainly to a favorable trade surplus and current transfers from overseas workers’ remittances. Moreover, Fitch has estimated that Mongolia will become a net external creditor for the first time in its history.

Since the BOM has become responsible for activity related to the country credit rating, foreign rating agencies’ interest in Mongolia has been resumed, and some national companies getting credit ratings, took the opportunity to obtain cheaper liquidity from the international financial market.

To strengthen cooperation between the BOM and the People’s Bank of China (PBC) and to establish an effective payment system to promote economic and trade developments between Mongolia and the People’ Republic of China, the “Agreement on payment and Settlement between the Bank of Mongolia and the People’s Bank of China” was concluded with precision in 2004. Every year, since 2004, an Annual Roundtable Meeting has been organized to discuss the results of the implementations of this agreement and to determine the problems demanding resolution in the future.

During the Third Annual Meeting, BOM and PBC decided to organize a seminar for Mongolian commercial banks on the theme of “The System of Payment and Settlement of China”. This seminar was organized in the Study Center of Graduate Institution under PBC in April 2007 in Beijing.

The Fourth Annual Meeting was organized in December 2007 in Khainan province of China. During this meeting participants discussed the cooperation between BOM and PBC and the payment issues of border trade, and made presentations about the development of economic cooperation, payment and settlement of border trade between our two countries and about recent changes in the macro economy.

The participants also agreed unanimously that the Agreement on Payment and Settlement, which is being realized to support the economic and trade cooperation between Mongolia and China, fulfils its duties. This conclusion was drawn from that fact that the total amount and number of settlements have increased sharply and that the problems of cash shipment, usage of cards and other barriers in payment and settlement have begun to be resolved successfully.

The 42nd SEACEN Governors’ Conference and 26th Meeting of the SEACEN Board of Governors were hosted in Bangkok, Thailand in July 2007. Governors of sixteen SEACEN member central banks, and two observer central banks, together with the Managing Director and Executive Directors of the International Monetary Fund participated in the Conference, the theme of which was “Living with Volatilities: Managing Exchange Rates and Capital Flows in SEACEN Economies”.

During the Conference, Governors emphasized that, while most of the member economies have benefited from increasing cross-border capital flows, there are risks associated with

greater financial globalization. These risks include disorderly correction of global imbalances, abrupt change in risk appetite and unwinding of carry trade activities.

In terms of the outlook of the world economy, Governors noted that the global economy is expected to continue its expansion in 2007 and 2008 with increasing contributions of the economies of China, India, Russia, region of the Euro and Japan. Notwithstanding the favorable economic outlook, downside risks remain, which need to be closely monitored. These risks include the potential for an economic slowdown arising from the correction of the US housing market, inflationary pressures arising from supply constraints, commodity prices and increasing financial market volatilities.

The Bank of Mongolia and SEACEN organized the “Seminar on Implementing a Balance Sheet Approach to Macroeconomic Surveillance” in July 2007 in Ulaanbaatar, Mongolia. Delegates from IMF, European Central Bank and the central banks of SEACEN member countries participated in this seminar.

To popularize the Mongolian economic position in the international market and to obtain cheaper liquidity, the Bank of Mongolia has published reports.

BOM’s efforts in upgrading the country’s IDR, spurred an interest in credit rating agencies, which had been diminishing recently.

The Bank Training Center

The main focus of the Bank Training Center (BTC) in 2007 was to organize high quality, effective training sessions and seminars according to its schedule. In total, 912 staff members attended training and seminars both domestically and abroad.

While the BTC’s annual plan of activities covered 41 domestic and foreign training sessions and seminars on 30 different subjects in the reporting year, the BTC actually organized 51 training sessions and seminars on 33 subjects.

To ensure quality and effectiveness of the seminars and training sessions, the BTC devoted efforts to extending the length of the seminars and training sessions. As a result, it organized 3368 participant/day training and seminars, which is an increase of 18.8 percent or 541.5 participant/days from the previous year.

Domestic training

In order to organize training and seminars which meet the needs and requirements of commercial banks, the BTC used its traditional method of drawing up its training plan, by involving the banks in the making of the plan and taking suggestions from them at the beginning of the year. During the year, the BTC worked closely with the Human resources officials of the commercial banks, consulting on the organization, planning and coverage of the training sessions and seminars, which contributed significantly to the quality and effectiveness of the training. In the reporting year, the BTC organized 45 domestic training sessions and seminars on 32 different subjects (2977.5 participant/day) and 841 staff members attended.

The BTC organized a 6-day regional training session in Orkhon aimag, which was attended by 23 banks’ staff from 5 aimags. In addition, training sessions were organized amongst loan officers in Darkhan-Uul, Zavkhan, and Orkhon aimags

In 2007, we trained 14 trainer-teachers domestically. In order to improve their skills and practice we also arranged training tours to Germany

In the reporting year, we created new training sessions on immoveable properties assessment, investment products, branch management, young manager development, and business start-up assistance.

Moreover, support from various international institutions enabled experts from the Republic of Ireland, Germany, Luxemburg and Belgium to be invited to instruct at 25 training sessions and seminars, which saved the cost of training staff abroad.

Foreign training

In order to learn from other countries' experiences of banking and financial activities and institutions, 5 study tours were conducted in Germany for management officials, human resource managers and specialists.

4.1 Economic review

Sustained high prices of gold and copper in the world market facilitated Mongolia's economic growth in 2007. According to preliminary estimates of the National Statistics Commission, the real economic growth accounted for 9.9 percent, and GDP per capita reached MNT 1729.6 thousand.

The average economic growth was estimated at 8.8 percent in 2004-2006, while in the reporting year it amounted to 9.9 percent, 1.3 percentage points up from the preceding year. The economy surged on the back of strong performances in such sectors as agriculture, hunting and forestry (20.6 percent of GDP); mining and quarrying (27.4 percent of GDP), wholesale and retail trade, repair of household goods (7.6 percent of GDP), transport, storage and communications (9.1 percent of GDP). In addition, the recent developments in manufacturing, the intensification of construction works, deepened financial intermediation and better performance in the hotel and restaurant sector have made a significant contribution to the economic growth.

In the reporting year, the manufacturing sector recorded the highest growth, an increase of 32.3 percent. Moreover, construction expanded by 22.4 percent, transport, storage and communications by 18.6 percent, agriculture, hunting, and forestry by 15.8 percent, wholesale and retail trade, repair of household goods by 15.4 percent, financial intermediation by 13.7 percent respectively.

Table 4.1 Gross Domestic Product

(at 2005 prices, million MNT)

	2004	2005	2006	2007*
Gross Domestic Product	2,591,592.8	2,779,578.2	3,017,425.7	3,316,498.9
growth (%)	10.6	7.3	8.6	9.9
Agriculture, hunting and forestry	547,642.2	608,335.1	654,148.2	757,340.1
growth (%)	18.6	11.1	7.5	15.8
Mining and quarrying	548,261.9	608,208.9	646,310.2	657,236.4
growth (%)	34.3	10.9	6.3	1.7
Manufacturing	126,261.5	101,962.9	115,585.3	152,962.3
growth (%)	-1.4	-19.2	13.4	32.3
Electricity, gas and water supply	79,328.2	80,021.1	83,634.8	86,273.1
growth (%)	6.3	0.9	4.5	3.2
Construction	50,747.7	58,835.2	61,827.5	75,681.5
growth (%)	-4.4	15.9	5.1	22.4
Wholesale and retail trade, repair of household goods	220,643.6	226,961.1	261,759.7	301,994.9
growth (%)	-2.6	2.9	15.3	15.4
Hotels and restaurants	16,342.8	19,135.0	21,022.1	21,278.2
growth (%)	14.4	17.1	9.9	1.2

	2004	2005	2006	2007*
Transport, storage and communications	251,425.0	309,100.0	346,429.2	410,868.1
growth (%)	10.7	22.9	12.1	18.6
Financial intermediation	87,147.2	99,966.8	96,776.1	110,028.8
growth (%)	21.7	14.7	-3.2	13.7
Real estate, renting and business activities	199,469.5	217,120.3	228,863.4	238,925.1
growth (%)	5.1	8.8	5.4	4.4
Public administration and defense, compulsory social security	64,651.5	66,847.2	67,154.5	67,221.7
growth (%)	4.0	3.4	0.5	0.1
Education	89,361.1	84,915.7	88,685.5	90,922.0
growth (%)	-7.7	-5.0	4.4	2.5
Health and social work	36,859.3	37,966.5	41,515.4	42,276.4
growth (%)	2.9	3.0	9.3	1.8
Other community, social and personal service activities	27,229.5	28,323.0	30,027.1	33,479.4
growth (%)	13.8	4.0	6.0	11.5
Financial intermediation services indirectly measured	-69,426.2	-79,858.5	-109,673.2	-149,010.8
growth (%)	26.4	15.0	37.3	35.9
Net taxes on production and import	307,180.5	311,737.9	383,359.9	419,021.7
growth (%)	17.6	1.5	23.0	9.3
Statistical discrepancy	8,467.5			

* Preliminary data

Source: National Statistics Commission

Total industrial output (at 2005 prices) grew by MNT 155.4 billion or 10.0 percent. The manufacturing sector output soared by MNT 152.5 billion or 37.7 percent, while mining and quarrying production dropped by MNT 3.8 billion or 0.4 percent. As a result, the manufacturing sector's share in the GDP rose by 0.7 percentage points to 4.1 percent, and mining and quarrying sector's share decreased by 2.6 percentage points to 27.4 percent.

The agricultural sector's contribution to the GDP rose from 19.5 percent to 20.6 percent owing to growth in the livestock sector. The total number of livestock increased by 5.5 million or 15.7 percent and reached 40.3 million. All types of livestock grew, and losses were reduced by 182.3 thousand heads or 38.3 percent compared to the previous year.

Unfavorable weather conditions such as hot and dry weather resulted in an unsatisfactory harvest in 2007. Cereal crop was reduced by 23.8 thousand tons or 17.2 percent, while vegetable crops rose by 6.0 thousand tons or 8.6 percent. The average yield per hectare for cereals was 920 kg and for potatoes 9990 kg, showing a decline of 180 kg in both yields.

In the reporting year, annual inflation reached 15.1 percent, the highest level since 2000. Supply side factors had a strong influence on overall CPI growth.

Our economy has been affected by external economic conditions. According to economists, the increased crude oil price on the world market was mainly caused by geopolitical instabilities, supply shortages and USD weakness. The prices of some food products such as wheat climbed up due to global warming and the growth of oil prices.

In the reporting year, the average price of petroleum A-80 and A-93 increased by 4.6 percent and 8.5 percent respectively, compared to the previous year. The highest increase was observed in November 2007 as prices rose by 11.3-12.0 percent. The Russian Federation has several times raised export taxes on oil products, causing a rise in prices of oil products in the domestic market. During the year the price of petroleum A-80 and A-93 increased by 27.4 and 23.9 percent, respectively. Petroleum price increase caused other product prices to rise. In the reporting year, increases in the price of meat, meat products, and flour and grain mill products hiked up the inflation. Moreover, the price of flour and grain mill products increased not only due to rising wheat prices on the world market and increased wheat export tax of the Russian Federation, but also due to price speculations.

In the reporting period, concrete measures were taken by the Parliament and Government to curb inflation. In order to improve the supply of flour and to stabilize its price, authorities made amendments to the Law on Value Added Tax (VAT), which freed VAT on 40 thousand tons of wheat imported before 1st of July 2008, as well as releasing the import tax on flour imported during this period. Furthermore, the Government was allowed to use MNT 51.6 billion from the Mongolian Development Fund on refundable conditions to build up wheat and flour reserves. With the aim of encouraging wheat production, enterprises and farmers the harvesting of wheat was granted MNT 60 thousands per one ton of wheat provided to the Agriculture Support Fund.

In the reporting year, the general government budget recorded a surplus of MNT 102.0 billion, that is equal to 2.2 percent of the GDP. Also, current revenues exceeded current expenditures by MNT 482.2 billion. An increase in the budget surplus resulted from an increase in the tax revenue. In particular, revenue of MNT 353.7 billion was generated from a tax on copper and gold extraction. This exceeds the revenue of the previous year by MNT 176.2 billion or 1 times.

Taxation legislation was augmented by the intention to extend the tax base, implement just principles of taxation, support domestic investment, reduce the tax burden and decrease differentiated tax relief by branches. The corporate income tax has been decreased for each level by 5 percentage points, while threshold for the higher rate was set at MNT 3.0 billion. Personal income tax was unified at 10 percent while the VAT rate was lowered from 15 percent to 10 percent. Consequently, corporate tax revenue and personal income tax revenue decreased by 1.4 percent and 7.7 percent, respectively, while tax income from value added tax increased by 9.1 percent compared to the previous year.

In 2007, total exports reached USD 1949.1 million while total imports amounted to USD 2170.1 million, resulting in a foreign trade deficit of USD 220.0 million. The main contributor to the total export growth was exports of mineral products (66.8 percent of the total exports) which increased by USD 407.4 million or 45.6 percent from the previous year. In recent years, the share of mineral products export in total exports has been increasing due to the rise in the export of copper and zinc. Copper export increased by 8.2 thousand tons (1.4 percent) in volume and by USD 176.1 million (27.7 percent) in value. The main import items were mineral products, cars, equipments and transport vehicles. Mineral products imports increased by USD 152.6 million or 33.9 percent compared to the previous year and constituted 27.8 percent of total imports.

In the reporting year, the net foreign reserves of Mongolia increased by 41.5 percent to USD 975.3 million, this accounts for 24 weeks of imports.

In the reporting year measures to improve social development have been further implemented. From 1 January 2007, the national minimum wage was raised to MNT 69000 and it was increased again to MNT 90000 from 1 October 2007. In addition, the minimum pension provided by the Social Insurance Fund was increased by 20 percent from 1 October 2007. Furthermore, in order to support population growth and children's development, an annual child allowance of MNT 100000 has been granted to children under the age of 18 years.

Industry

In the reporting year, the main components of industrial production were mining and quarrying (67.8 percent), manufacturing (24.3 percent), and electricity generation, thermal energy, and water supply (7.9 percent). Mining of metal ores accounted for the largest share (88.1 percent) in mining and quarrying. Out of the total for manufacturing production, the manufacture of basic metals accounted for 31.0 percent, manufacture of food and beverages 28.9 percent, and manufacture of textiles 23.9 percent. The production of electricity, thermal energy and steam made up 88.0 percent of the total of electricity generation, thermal energy, and the water supply sector.

In 2007, total industrial production rose by 10.0 percent (at 2005 prices). This included a rise of 37.7 percent in manufacturing, 3.7 percent in electricity generation, thermal energy, and the water supply sector. The main sub-sectors showed expansion as follows: the manufacture of food and beverages rose by MNT 37.5 billion or 31.1 percent, manufacture of textiles by MNT 14.8 billion or 13.2 percent, manufacture of basic metals by MNT 102.6 billion or 2.1 times, and the production of electricity, thermal energy and steam by MNT 5.3 billion or 3.2 percent. However, mining and quarrying declined by 0.4 percent, of which the mining of metal ores decreased by MNT 37.6 billion or 4.4 percent.

In the reporting year, domestic industrial output sales increased by 23.2 percent compared to the previous year and it reached MNT 2.6 trillion, of which MNT 1.8 trillion worth of products were supplied to foreign markets. Mining and quarrying output accounts for 69.9 percent of the total manufacturing output whereas manufacturing output accounts for 22.3 percent and electricity, thermal energy and water supply output accounts for 7.8 percent. Products sold to foreign markets comprised 84.5 percent of the mining and quarrying output and 42.8 percent of the manufacturing output; specifically 86.8 percent of the outputs of mining of metal ores, 82.7 percent of textile garments, 69.1 percent of the manufacture of basic metal products were sold to foreign markets.

Industrial output sales in Ulaanbaatar city accounted for 41.5 percent of the total and Orkhon Aimag for 44.4 percent. Compared to the previous year, sales in Ulaanbaatar city and Orkhon Aimag grew by 9.4 percent and 39.8 percent, respectively. As a result, the proportion of sales in Ulaanbaatar city declined by 5.3 percentage points, while in Orkhon Aimag it rose by 5.3 percentage points. In the reporting year, Orkhon aimag had the highest industrial output sales compared to the other cities and Aimags.

Agriculture

In 2007, 40.3 million livestock were counted, of which 18.3 million were goats, 17.0 million sheep, 2.4 million cattle, 2.2 million horses and 260.6 thousand were camels. Total livestock increased by 5.4 million heads or 15.7 percent from the previous year. Considering livestock variations by type, goats increased by 2.9 million heads, sheep by 2.2 million, cattle by 257.9 thousand, horses by 124.7 thousand, and camels by 7.1 thousand. Out of the total livestock,

42.2 percent was accounted for by sheep, 45.6 percent by goats. Increase in the total livestock grew by an increase in small livestock.

All aimags and Ulaanbaatar city recorded a rise in livestock of 9.3 – 566.9 thousand heads or 2.9 – 33.0 percent. Aimags such as Khovsgol (3425.3 thousand), Ovorkhangai (3190.2 thousand), Zavkhan (3000.0 thousand), Arkhangai (2912.6 thousand), and Uvs (2653.5 thousand) lead in terms of livestock numbers.

The average number of livestock per herder family was 176 livestock; specifically 1 camel, 10 horses, 11 cattle, 74 sheep and 80 goats.

In 2007, 13.1 million female livestock, or 88.8 percent of the total female livestock, were breeding stock. New-born livestock, as a proportion of the total breeding stock, increased by 1.6 percentage points from the previous year. The number of survivors increased by 1.8 percentage point, reaching 97.1 percent of the total number of new-born livestock.

In the reporting year, the total area of cultivated land increased by 40.7 thousand hectares or 25.1 percent. The area for potatoes was enlarged by 0.7 thousand hectares or 6.9 percent, for vegetables by 0.2 thousand hectares or 4.3 percent, fodder by 1.1 thousand hectares or 28.3 percent. However, cereal fields were reduced by 4.4 thousand hectares or 3.5 percent, the area for wheat by 1.3 thousand hectares or 1.1 percent.

In the reporting year, 114.8 thousand tons of cereals, 109.6 thousand tons of wheat, 114.5 thousand tons of potatoes, and 76.5 thousand tons of other vegetables were harvested. Moreover, 930.4 thousand tons of fodder and 34.5 thousand tons of supplementary livestock feed were prepared. Consequently, the country recorded a growth of 5.4 thousand tons or 5.0 percent in the potato crop, 6.1 thousand tons or 8.6 percent in the crops of other vegetables, 0.5 thousand tons or 1.5 percent in supplementary livestock feed from 2006. Although there was a drop of 23.8 thousand tons or 17.2 percent in cereals crop, 18.2 thousand tons or 14.2 percent in wheat, 52.9 thousand tons or 5.4 percent in fodder.

The average yields per hectare for cereals were 920 kg and for potatoes were 9990 kg, indicating a drop of 180 kg or 16.4 percent in cereals and 180 kg or 1.8 percent in potatoes from the previous year.

Construction

According to preliminary findings, construction companies performed construction and capital repair works worth MNT 314.3 billion, an increase of MNT 47.5 billion, or 17.8 percent from the previous year. Out of the total for construction and capital repair work, 93.1 percent were carried out by domestic construction companies.

Out of the total for construction work and repairs, housing projects comprised 26.8 percent, other projects such as industrial projects, trade and service centers, hospitals, schools and cultural palaces 15.3 percent, engineering and construction work 41.9 percent, and capital repairs 15.9 percent, respectively. Domestic construction companies performed 54.7 percent of the total for housing and repair work in Ulaanbaatar city.

In the reporting year, construction and repair work worth MNT 228.5 billion were launched. Housing projects comprised 31.3 percent, non-housing projects 13.4 percent, engineering and construction works 36.1 percent and capital repairs were 19.1 percent.

Transportation and communication

In 2007, 23.3 million tons of freight and 209.9 million passengers (on gross basis) were carried by all means of transportation. Freight transportation was reduced by 686.2 thousand tons or 2.9 percent, while passenger transportation rose by 14.5 million passengers or 7.4 percent from the previous year.

The total transportation revenue grew by MNT 30.0 billion or 9.6 percent, reaching MNT 341.8 billion. Revenue generated from auto transportation increased by MNT 30.0 billion or 65.1 percent, air transportation by MNT 10.7 billion or 12.9 percent and water transportation by MNT 16.5 million or 5 times, while railway transportation revenue was reduced by MNT 10.7 billion or 5.8 percent.

Freight transportation grew by 17.7 thousand tons or 0.2 percent to 9.2 million tons, while passenger transportation rose by 14.3 million passengers or 7.5 percent to 205.0 million passengers.

Rail freight transportation dropped by 703.6 thousand tons or 4.8 percent to 14.1 million tons, reflecting a fall in transit transportation of 992.2 thousand tons or 22.2 percent. However, passenger transportation rose by 0.2 million passengers or 3.5 percent.

Air freight transportation showed a decline of 0.3 thousand tons or 14.2 percent, while air passenger transportation increased by 23.3 thousand passengers or 6.4 percent.

According to the results of motor vehicle inspection, 162.0 thousand motor vehicles were registered, of which 110.1 thousand or 68.0 percent were cars. Out of the total for registered cars, 63.1 percent were registered in Ulaanbaatar.

The communication sector revenue stood at MNT 246.8 billion, which is an increase of MNT 73.3 billion or 42.2 percent from the previous year. Revenue from individuals made up 82.4 percent of the total revenue, indicating an increase of 3 percentage points from the previous year. Revenue from mobile telephone users soared to MNT 64.6 billion or 52.6 percent, while revenue from telephone, telefax, and telegraph grew by MNT 3.3 billion or 8.2 percent, driving the rise in the total revenue of the communications sector.

The use of mobile telephones increased by 405.0 thousand or 52.6 percent to 1.2 million, while the use of wireless telephones was reduced by 19.1 thousand or 43.2 percent to 25.1 thousand, the number of land-line telephone lines fell by 13.7 thousand or 8.4 percent to 150.0 thousand.

A new company “G-Mobile” entered the mobile telephone services market in 2007.

BOX 7. Determinants of Price of New Apartment Using Hedonic Regression: A Case from Ulaanbaatar

This paper examines the determinants of the price of a new apartment using hedonic regression. The hedonic model of price measurement is based on the assumption that an asset's value derives from the value of its different characteristics. The price of an apartment will therefore depend on the value the buyer places on both qualitative (e.g. heating type) and quantitative attributes (e.g. number of rooms).

Since the prices of these characteristics cannot simply be observed, hedonic regression estimates the implicit market value of a unit of each attribute by comparing sample apartment prices with the associated characteristics.

In the paper, we used the following hedonic apartment price function:

$$[1] \quad P_H = P(X \in S, CT, C, A, R)$$

Where P_H - the market value of 1m² for the new apartment;

S - structural characteristics (proxy by square's size of a new apartment with 3 rooms);

CT - construction's type (proxy by a) total number of households in a new apartment, b) quality of a new apartment (image of the construction company), c) promotion of a new apartment);

C - classification of districts (6 districts of the city) and regions (from 1st to 5th);

A - accessibility (proxy by a) distance between an apartment and city center b) dummy variable of distance to bus station and transportation arteries, c) distance to shopping and recreation, d) safety of the apartment around);

R - proximity externalities (a) amount of noise, b) amount of air pollution).

The function also includes t, the period when the apartment price and characteristic data were collected.

Parameters of hedonic equation are frequently estimated by using a semilogarithmic functional form. This specification regresses the log of the transaction price on a linear combination of apartment characteristics. The semilog functional form is given by

$$[2] \quad P_H = e^{Xb+e}$$

Where P_H is the market value of 1 m^2 for the new apartment, $X \in \{S, CT, C, A, R\}$ is a vector of the apartment characteristics, b is the vector of the known hedonic coefficients, and e is the residual. Taking the natural logs of the equation (1) yields the transformed equation:

$$[3] \quad \ln P_H = Xb + e$$

$$\text{or} \quad \ln(P_i) = a_0 + \sum_{j=1}^1 a_{1j} S_{ij} + \sum_{k=1}^3 a_{2k} CT_{ik} + \sum_{l=1}^2 a_{3l} C_{il} + \sum_{f=1}^4 a_{4f} A_{if} + \sum_{z=1}^2 a_{5z} R_{iz} + e_i, \quad (5)$$

where $e \in N(0, s^2)$, a_0 is intercept (base price), a_{1j}, \dots, a_{5z} are the hedonic coefficients of factors.

The cross-section data consist of 118 transactions⁵ of new apartments with 3 rooms sold in Ulaanbaatar between 2006 and 2007.

Table 1. Results of hedonic apartment price functions

Dependent variable: LOG(PRICE)- Log of new apartment price		
Estimation method: Ordinary Least Squares (OLS)		
Observation of cross section: 118		
Independent variables	Coefficient	Probability#
C (Intercept)	6.22	0.0000*
Safety of the area around the apartment (DA3)	-0.11	0.0006*
Distance to bus station and transportation arteries (DA1)	-0.07	0.0268**
Promotion of an apartment (DCT2)	0.07	0.0240**
Distance to city center (LOG(DIS))	-0.16	0.0000*
Khan-Uul district (XU)	0.21	0.0000*
Square's size of a new apartment (LOG(S))	0.28	0.0001*
Dummy variable of amount of noise (DR1)	-0.06	0.0710***
R^2	0.60	
\bar{R}^2	0.58	
Dummy variable of amount of noise (DR1)	0.34	
LR Test of redundant variables for LOG(DIS), DR1, DA1	0.00	
White Heteroskedasticity test	0.12	
Durbin-Watson statistic	1.98	

indicates probability of H_0 : this coefficient are equal zero.

*, **, *** indicates significance at the 1 percent, 5 percent, 10 percent rejected H_0 : this coefficient are equal zero.

From Table 1, we can conclude that the price of a new apartment depends on the square footage of an apartment, the promotion of an apartment, classification of the district, the distance to city center, the distance to the bus station and transportation arteries, safety of the surrounding area of an apartment and the amount of noise at a 1-10 percent significance level. Therefore, all estimated coefficients are consistent with the expected signs, and diagnostic test results show that it is possible to study and predict the price of a new apartment, using these factors.

In general, this paper suggests that hedonic regression is a promising method for the calculation of the housing price index and the valuation of a new apartment.

⁵ These data have been collected from "Tenkhleg zuuch" journal # 1, 2, Google Earth program and a map of the Ulaanbaatar city (M 1: 250000).

BOX 8. Brief review of the world commodity market**Crude oil**

In the reporting year, the crude oil price increased by approximately 60 percent to USD 95.49 per barrel. As in the previous year, the main reason for the increased oil price was high world demand due to nations with high economic growth such as China and India. The growing demand of these nations for oil tends to increase further. The political instability of some oil exporting nations, USD deflation and the relatively cold weather conditions also contributed to the high price of oil. In November, in order to prevent a further increase in oil prices, OPEC member nations increased the crude oil supply by 500 thousands barrel per day. This action temporarily slowed down the rise in oil price, but was insufficient to cover the growing demand. In 2008 the oil price may remain high and will tend to rise further. The need to increase energy resources and to use them efficiently will remain a major challenge.

Gold

The gold price increased by 35 percent over the past year. A weak USD, increasing oil prices and volatile financial markets were the main reasons for a high gold price.

At the beginning of the reporting year the gold price was increased due to USD deflation. However during the second quarter it became stabilized as central banks increased gold sales and the weakened gold price was only sustained for a short period of time. The unexpected interest rate cut by Federal Reserve to mitigate the U.S sub prime mortgage crisis sent the dollar to the lowest exchange rate against the euro and pushed the gold price to a record high USD 841 in November.

Copper

Although in 2006 the copper price reached USD 8800 per ton, the highest ever observed price, it has gradually gone down due to decreasing demand in China. Also the economic slow down in the USA, the second copper user, manifest in the housing market crisis, caused a decrease in the demand for copper leading to a price fall. In the second quarter of the reporting year, an increase in Chinese copper imports and a decrease in the London Metal Exchange copper inventories caused a price upsurge up to USD 8000 per ton. However, this decreased to USD 6700 per ton by the end of the year.

In 2008 the copper price is expected to be volatile as in previous years. The major reasons behind this will be copper use in USA and China, the largest copper users. If the housing market crisis in the USA persists, the demand for copper may decrease. However, Chinese copper imports show a tendency to increase, according to researchers, which suggests that the copper price may not decrease significantly.

Wheat

There are two major reasons behind the fact that the price of wheat has doubled. The first is a decreased wheat supply by major wheat exporting countries, caused by a lower harvest due to adverse weather conditions in those countries. The second is increased domestic consumption as well as increased imports of wheat in India, Pakistan and some other wheat importer countries. If the harvest in major wheat exporting countries does not increase appropriately, an excess demand for wheat may call for increased prices during the next year.

4.2 Prices

In 2007, price levels, according to CPI, have increased, leading to an end-of-year inflation rate of 15.1 percent. In recent years, inflation has been rising as a result of higher fuel prices and its significant weight in the pricing of goods and services. Also, it has been observed that suppliers (sellers) take advantage of seasonal deficits of some products to artificially inflate prices, thereby amplifying consumer price levels. Moreover, prices for imported goods, which have a direct influence on domestic prices, went up in 2007 due to higher prices in our neighboring countries. These were the main factors behind the acceleration in consumer prices in 2007.

In 2007, CPI decreased by 0.1 percent only in January, whereas throughout the rest of the year it steadily grew. The January deflation was caused by lower prices for clothing and shoes as well as price decreases in real estate, water and fuel sectors. The CPI increased most dramatically in February, June and August. In the past, prices rose in winter, stabilized in spring and decreased in summer, again to increase in winter. However, higher prices of imported goods caused by high inflation in neighboring economies have negatively affected price levels in our country.

On the other hand, increases in the salaries of state employees, social security expenditure, and Government investment became the internal factors of the price increase. In fact, the ratio of Government expenditure to GDP, which was 33 percent from 2005 to 2006, reached 38.4 percent in the reporting year. By the end of the year, the average salary of an employee had reached 205.9 thousand, 49.5 percent higher than the previous year. Growth in labor productivity was higher compared to the growth in average salary during 2004 and 2005. But from 2006 to 2007, the growth in the average salary was higher, compared to labor productivity, by 0.7 percent or 30.1 points. Higher growth in the average salary relative to the growth in labor productivity leads to negative consequences. Therefore, the Bank of Mongolia conducted research on “The Correlation between salary or income and inflation”, in the year 2006, and proved that gradual increases in salary is more effective rather than a sudden increase.

Table 4.2. Consumer price index, annual inflation, by sector, end of year

	Consumer price index			Annual inflation
	Core	2006	2007	
Food and non-alcoholic beverages	42.2	43.6	54.4	10.2
Alcoholic beverages, tobacco	2.9	3.0	3.1	0.1
Clothing, footwear and cloth	10.1	10.9	11.2	0.3
Housing, water, electricity and fuels	10.5	11.4	12.7	1.2
Furnishings, household equipments and tools	3.3	3.6	4.0	0.5
Health, medical care and service	1.8	2.2	2.5	0.3
Transport	9.5	10.7	11.8	1.1
Communication	3.1	2.7	2.4	-0.3
Recreation and culture	3.7	3.9	4.0	0.1
Education	5.4	6.0	7.2	1.1
Restaurants and hotels	2.7	3.0	3.4	0.4
Miscellaneous goods & services	4.6	4.9	5.1	0.2
Overall index	100.0	106.0	122.0	15.1

In the reporting year, prices increased for 68.3 percent of the total 287 goods and services included in the CPI, while prices decreased for 18.5 percent and remained stable for the remaining 13.2 percent. Sectoral analysis of the CPI shows that prices have risen for all sectors except communications and information technology. Strong market competition in the communications and cellular phone services has led to lower prices for communication services. On the other hand, dramatic price increases for foodstuffs can be considered the main reason for high annual inflation. Higher food prices constitute an increase of 10.2 points in the general index of inflation. Prices for bread, flour, rice (4.3 points), meat and meat products (2.7 points) have increased most dramatically within the food category. Also, robust price growth has been witnessed in the following sectors: real estate, water and electricity, fuel (1.2 points), transportation (1.1 points) and education services (1.2 points).

BOX 9. World inflation outlook

Euro zone inflation stood at 1.6 percent in first the nine months of the reporting year, which is 0.2 point higher in the same period of the previous year. Core inflation was the major contributor to euro zone consumer price growth (0.7 percentage points). The euro area headline CPI remained below 2 percent during the reporting year, but ticked up in September and was expected to temporarily exceed this threshold during the remainder of the year on account of higher energy and food prices. Inflation has been firming up in the euro area with rising resource utilization.

Against the background of the changing balance of risks to growth and inflation, the Federal Reserve cut the federal funds rate by 50 basis points. With the economy weakening, inflation pressures have moderated. As measured by the core personal consumption expenditure deflator, 12-month inflation has come down below 2 percent. Pressures on core inflation are expected to continue to ease in the coming months against the backdrop of slowing growth in shelter costs (which have been an important driver of core inflation over the past year).

In some countries high inflation was caused by a decrease in production, a sudden increase in demand, and overheating of the economy. Declining inflation has allowed some central banks to cut interest rates (Indonesia, the Philippines, and Thailand), whereas others have recently tightened monetary policy (including China, India, and Korea). Sustained growth in recent years has not yet resulted in a decisive exit from deflation. After a period of rising consumer prices, the year-on-year changes in the headline and core CPI have once again turned modestly negative in recent months, although land prices are now rising. Japanese officials expect the increase in oil price will bring the economy out of deflation, even though the consumer price index was negative.

Mongolia's trade partner country's inflation

The change in the world market and trade partner's economy affects our economy. In particular, the Mongolian economy is heavily dependent on foreign imports and exports. It follows that the general price level depends greatly on those factors. For instance, inflation growth of Mongolia's main importing countries influences our importing products price and it can lead to a growth in the inflation rate of our country, because import products have the highest quantity in the consumer basket. However, the inflation growth of the exporting countries can also affect the growth of the export products' price, which is measured by the exchange rate.

In China, which supplies about 70 percent of Mongolia's export, inflation has been stable in the last few years. However, surging food prices drove CPI inflation up to 6.5 percent in August 2007 (even though nonfood price inflation remains subdued). The research conducted at the Bank of Mongolia determined that China's inflation growth rate influences Mongolia's inflation about three months later.

In Russia, which supplies about 37 percent of Mongolia's imports, inflation has been decreasing since 2000. However, in August 2007 the inflation rose to 7.5 percent, an increase by 0.3 percent over the same period of the last year. Inflation reached 9.8 by the end of the year. The growth of inflation was due to the increase of core inflation and food prices.

Table1. Mongolia's trade partner country's inflation (percent)

USA	Russia	China	South Korea	Germany
2.7	8.1	4.7	2.6	2.1

BOX 10. World interest rates

The growth rate of the world economy in the reporting year was 5.2 percent. However the silver lining is the fact that more and more countries are tasting success with economic reforms. The rewards of the shift of third world countries from state-controlled economies to free open market economies are evident at the end of 2007.

The Indian economy grew at an estimated rate of 8.5 percent approximately. A record surge in foreign investment has resulted in the sharp appreciation of the rupee, which is already hurting exports, especially earnings of the highly profitable outsourcing industry.

The Chinese government is struggling to contain pressure for prices to raise as a flood of cash from China's yawning trade surplus courses through the economy and they have tried to cool a price surge that has pushed inflation to its highest level in a decade. China raised interest rates in December for the sixth time this year. The interest charged on a one-year loan rose by 0.18 percentage points to 7.47 percent and bank deposits rose by 0.27 percentage points to 4.14 percent. Also required reserves increased 10 times, reaching 14.5 percent. If China let its Yuan rise faster against the dollar, its trade gap with the United States would narrow and inflation pressure would ease.

The US economy grew at an estimated 1.9 percent in 2007, the lowest growth rate of the country in six years. Financial institutions have been under pressure from problem home-mortgage loans. Slowdown in the US economy has had major impacts on the world economy. The bulk of the dollar's 2007 woes to the sub-prime mortgage meltdown and subsequent credit crisis in August, led the Federal Reserve to embark on monetary easing in the following month. The Fed's easing was eventually followed by interest rate cuts by the Bank of England and the Bank of Canada. The Federal Reserve cut the interest rate by a whole one point in 2007.

A move by the Middle East oil exporters to revalue their dollar pegs or ditch them altogether could also put pressure on the dollar, as could more mortgage- and credit-related problems in the U.S. financial system.

Higher costs for energy and food pushed inflation up by the largest amount in 17 years in 2007 even though prices generally remained tame outside of those two areas. Consumer prices rose by 4.1 percent for all of 2007, up sharply from a 2.5 percent increase in 2006.

The dollar has shed more than 10 percent against a basket of six major currencies. The euro alone has gained 12.5 percent against the dollar in 2007, hitting an all-time high in November of just shy of \$1.50. When the yen appreciated sharply against the dollar in August, spot trading topped \$36.4 billion dollars, the highest level since 1998. Japan's low interest rates kept the yen weak, particularly in the first half of the year, by effectively inviting carry trades, in which investors borrowed funds in yen at low rates to invest in other higher-yielding assets.

The European Central Bank (ECB) has resisted the impulse to raise interest rates as inflation accelerates in the 13 countries that use the euro currency. Inflation grew to 3 percent in November, well above the ECB's guideline of just under 2 percent.

Picture 1. USD rate against the six major currencies



Major Central Banks Overview

Central Bank	Next meeting	Last change	Current interest rate
Bank of Canada	3/4/2008	3/12/2007	4.25
Bank of England	3/6/2008	12/6/2007	5.50
Bank of Japan	2/14/2008	7/4/2006	0.50
European Central Bank	3/6/2008	6/6/2007	4.00
Federal Reserve	3/18/2008	12/11/2007	4.25
Swiss National Bank	3/13/2008	9/13/2007	2.75
The Reserve Bank of Australia	3/4/2008	11/07/2007	6.75

Asia Pacific

Country	Current Interest Rate	Previous	Last change
Australia	6.75	6.50	11/7/2007
China	7.47	7.29	12/20/2007
India	7.75	7.50	4/24/2007
Japan	0.25	0.07	7/14/2006
Korea, Republic of	5.00	4.75	8/9/2007
New Zealand	8.25	8.00	7/25/2007
Taiwan	3.38	3.25	12/20/2007

Europe			
Country	Current Interest Rate	Previous	Last change
European Monetary Union	4.0	3.8	6/6/2007
Hungary	7.5	7.8	9/24/2007
Iceland	13.8	13.3	11/12/2007
Norway	5.3	5.0	12/12/2007
Slovakia	4.3	4.5	4/24/2007
Sweden	4.0	3.8	10/30/2007
Switzerland	2.8	2.5	9/13/2007
United Kingdom	5.5	5.8	12/6/2007

South America			
Country	Current Interest Rate	Previous	Last change
Brazil	11.3	11.5	9/5/2007

4.3 Labor market, productivity

Labor productivity

Labor productivity, as calculated by the National Statistics Commission, on a ratio of value added and annual average number employees, which was MNT 2.3 million in 2004, has increased year by year and reached MNT 4.5 million in 2007.

In 2007, the mining and quarrying sector's labor productivity was the highest or 6.4 times higher than the national level. Moreover, labor productivities of real estate, renting, and business activities, transport, storage, and communication, financial intermediation, and manufacturing have been up by 4.9, 2.4, 1.7, and 1.3 times respectively from the national level. However, service industry, such as hotels and restaurants was the sector with the lowest labor productivity, being lower by 4.2 times than the national level.

Table 4.3. Labor productivity /at current prices, in thousand MNT/

	2004	2005	2006	2007*
At national Level	2 308.7	2 919.6	3 792.9	4 530.8
Agriculture, hunting, forestry growing of crops	1 245.4	1 585.4	1 861.4	2 416.9
growing of crops	1 467.4	1 358.7	2 739.5	3 091.3
livestock	1 222.2	1 571.8	1 742.1	2 316.6
Mining and quarrying	11 294.6	16 745.5	27 319.9	29 099.2
Manufacturing	2 310.9	3 153.7	4 424.0	5 906.4
Electricity, gas, and water supply	3 106.1	3 389.6	3 502.6	3 766.6
Construction	1 558.9	1 551.5	1 460.5	1 754.5
Wholesale and retail trade; repair of motor vehicles, motorcycle and personal & HH goods	2 755.9	3 010.2	3 462.3	4 012.1
Hotels and restaurants	681.7	760.9	942.7	1 069.9
Transport, storage, and communication	6 491.7	8 059.6	8 833.2	10 708.1
Financial intermediation	5 750.3	6 279.3	6 479.9	7 621.0
Real estate, renting, and business activities	19 154.7	21 752.0	24 105.5	22 292.1
Public administration and defense; compulsory social security	1 284.7	1 446.0	2 529.8	3 686.9
Education	1 166.2	1 458.8	2 004.7	2 796.1
Health and social work	890.3	982.0	1 383.5	2 042.8
Other community, social and personal service activities	769.1	963.3	1 481.3	2 136.1

*Preliminary data

Source: National Statistics Commission

With regard to the significant contribution that sectors have made to economic growth, production in the agriculture, hunting, and forestry sector has been up by 15.8 percent while labor productivity in this sector increased by 29.8 percent, production of mining and quarrying expanded by 1.7 percent, while its labor productivity grew by 6.5 percent, production of manufacturing increased by 32.3 percent, and its labor productivity rose by 33.5 percent, production of wholesale and retail trade, household goods and repair services expanded by 15.4 percent, while its labor productivity increased by 15.9 percent, and production of transport, storage, and communication grew by 18.6 percent, while its labor productivity rose by 21.2 percent. However, while production in real estate, renting, and business activities increased by 4.4 percent, labor productivity in this sector reduced by 7.5 percent.

Total productivity, calculated as a ratio of value added and the sum of the intermediate consumption, labor and capital expenditure, was MNT 0.68 in 2002 and 2003, MNT 0.78 in 2004, MNT 0.80 in 2005, and MNT 0.83 in 2006, respectively, showing a year by year increase. However, in the reporting year, it decreased to MNT 0.78. In terms of total productivity, mining and quarrying /MNT 2.42/, wholesale and retail trade, household goods and repair services /MNT 2.39/, agriculture, and hunting, and forestry /MNT 2.17/ sectors are leading. In contrast, manufacturing /MNT 0.5/, electricity, gas, and water supply /MNT

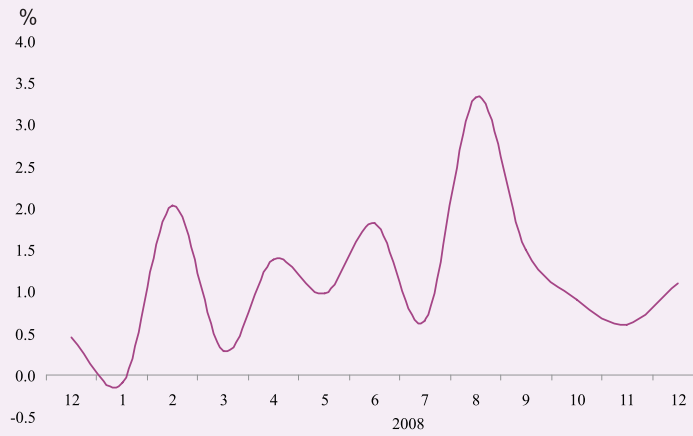
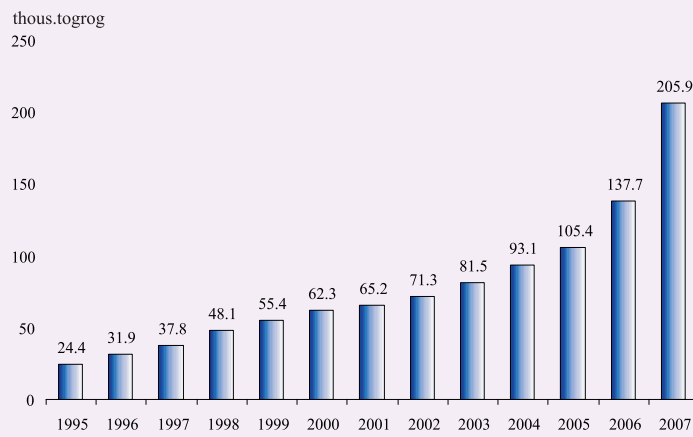


Figure 4.1.

Inflation (monthly changes)



Picture 4.2.

Average wages

Source: National Statistics Commission

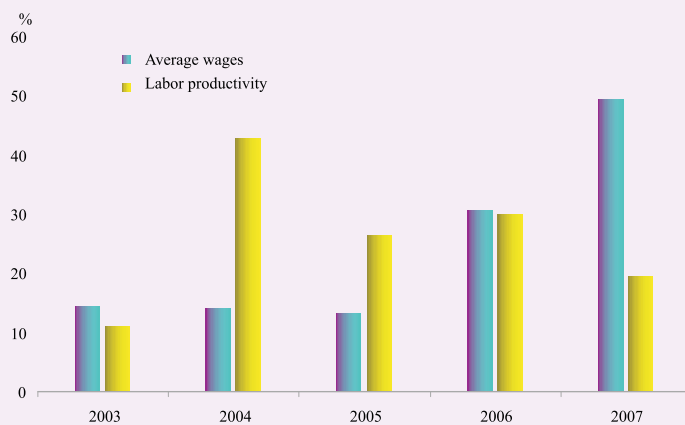


Figure. 4.3

Labor productivity, growth in average salary

0.5/, hotels and restaurants /MNT 0.46/, construction /MNT 0.28/ showed a lower level of total productivity.

Total factor productivity, determining the efficiency of the labor and capital used in the production process, reduced by MNT 0.17 to MNT 3.53. Livestock /MNT 32.10/, wholesale and retail trade, repair household goods and repair services /MNT 12.19/, growing of crops /MNT 10.88/, mining and exploration /MNT 6.65/ are leading in terms of total factor productivity.

Unemployment

As of end of 2007, the total population of Mongolia has reached 2635.1 thousands, which has increased by 1.6 percent than the previous year. Out of the total population, 29.9 thousand are registered as unemployed people, who are actively seeking employment through aimag and district employment offices. The number of registered unemployed was reduced by 3.0 thousand or 9.1 percent from the previous year.

According to the preliminary report of the National Statistics Commission, approximately 50.0 thousand new positions were created in 2007. 55.4 thousand unemployed found employment in the reporting year, which resulted in a rise by 12.4 thousand or 28.7 percent from the previous year. 12.3 percent of people, who got employment, were hired by the state organizations and 87.7 percent by private companies and other entities.

Wages

According to the report of National Statistics Commission, the average amount of monthly wages rose by 49.5 percent to MNT 205.9 thousand.

In economic activity sectors, average salaries for employees of financial intermediation entities /MNT 412.2 thousand/, public administration, defense, compulsory social security /MNT 258.0 thousand/, mining and exploration /MNT 238.7 thousand/, education /MNT 219.6 thousand/, health and social welfare /MNT 206.7 thousand/ are higher than the national average, while other sectors' average salaries are lower than it.

Growth in average salary was higher by 3.4 percentage points than rise in labor productivity in 2003, whereas labor productivity's growths were higher by 28.6 and 13.2 percentage points, respectively in 2004 and 2005. Average salary increase has become again higher than by 0.7 and 30.1 percentage points, respectively in 2006-2007.

4.4 Government Finance

In the reporting year, budget revenue generated MNT 1851.2 billion (40.6 percent of GDP), while expenditure rose to MNT 1749.2 billion (38.4 percent of GDP), resulting in an overall budget surplus of MNT 102.0 billion (2.2 percent of GDP) and a current account surplus of MNT 482.2 billion (10.6 percent of GDP).

Table 4.4. General government budget

/in billion MNT/

	2006 он		2007 он			Хувь	
	Actual	Share (%)	Projection	Action	Share (%)	Over 2006	Over projection
Total revenue and Grant	1360.41	100	1703.98	1851.19	100	136.08	108.64
Current revenue	1354.10	99.54	1698.08	1843.67	99.59	136.15	108.57
Tax revenue	1128.14	83.31	1348.15	1500.72	81.40	133.03	111.32
Income tax	476.83	35.21	574.03	647.84	43.17	135.86	112.86
Social security contributions	111.93	8.27	139.60	158.44	10.56	141.55	113.50
Taxes on property	6.91	0.51	7.76	8.13	0.54	117.70	104.79
Taxes on goods and services	352.72	26.05	351.25	409.96	27.32	116.23	116.72
Taxes on foreign trade	72.07	5.32	94.14	102.48	6.83	142.19	108.86
Other taxes	107.67	7.95	181.37	173.86	11.58	161.47	95.86
Non-tax revenue	225.96	16.69	349.93	342.95	18.60	151.78	98.00
Capital revenue	1.63	0.12	1.80	2.51	0.14	154.53	139.62
Grant	4.69	0.35	4.10	5.01	0.27	106.89	122.14
Total expenditure and Net lending	1237.01	100	1815.88	1749.17	100	141.40	96.33
Current expenditure	982.35	79.41	1381.53	1361.46	77.83	138.59	98.55
Expenditures on goods and services	692.49	70.49	667.41	663.53	48.74	95.82	99.42
Interest payments	18.08	1.84	24.04	18.32	1.35	101.32	76.22
Subsidies and transfers	271.78	27.67	690.08	679.62	49.92	250.06	98.48
Capital expenditure	175.67	14.20	331.92	286.98	16.41	163.36	86.46
Lending (net)	78.99	6.39	102.44	100.73	5.76	127.52	98.33
Current balance	371.75		316.56	482.21		129.71	152.33
Overall balance	123.40		-111.90	102.02		82.67	-91.17
Financing	-73.26		111.90	192.51		-262.78	172.04
Foreign, net	89.98		56.28	45.25		50.28	80.39
Domestic, net	-163.24		55.62	147.27		-90.22	264.78

Budget Revenue

Total budget revenue and grants reached MNT 1851.2 billion, by MNT 147.2 billion or 8.6 percent up on projections. Budget revenue was MNT 490.8 billion or 36.1 percent higher than in the previous year.

In comparison with the previous year, current account revenue (99.6 percent of total revenue) increased by MNT 489.6 billion or 36.1 percent, which determined the total growth of

revenue. Tax revenue (81.4 percent of current revenue) went up by MNT 372.6 billion or 33.0 percent. Income tax revenue (43.2 percent of tax revenue) showed an increase of MNT 171.0 billion or 35.8 percent, tax revenue on domestic goods and services (27.3 percent of tax revenue) rose by MNT 57.2 billion or 16.2 percent, and social security contributions (10.5 percent of tax revenue) by MNT 46.5 billion or 41.5 percent.

Tax income from income tax has increased by 35.8 percent. Tax incomes rose by MNT 353.7 billion due to increased price levels of some products, 90.3 percent or MNT 319.5 billion of which was due to tax paid by Mongolia-Russian Joint Venture Erdenet for increased price on copper.

Value-added tax (VAT) returns comprised 64.2 percent of tax revenue on domestic goods and services. VAT receipts grew by MNT 21.9 billion or 9.1 percent, while excise duty receipts (28.4 percent of tax revenue on domestic goods and services) rose by MNT 33.6 billion or 33.6 percent. VAT revenue has increased due to the growth in domestic production of goods. Total revenue from excise duty expanded as a result of an increase of 42.0 percent in excise tax on alcohol, 11.8 percent in excise tax on diesel and petroleum products and 48.9 percent in excise tax on automobiles.

Revenue from foreign trade tax reached MNT 102.5 billion, a rise of by MNT 30.4 billion or 42.2 percent. Import tax revenue (94.0 percent of foreign trade tax revenue) rose by MNT 31.0 billion or 47.5 percent. Payments of royalties for the use of mineral resources went up by MNT 61.9 billion or 139.9 percent and made up 61.0 percent of the total revenue from other taxes.

In the reporting year, budget expenditure was MNT 512.1 billion or 41.4 percent more than in the previous year and was MNT 66.7 billion or 3.7 percent up on projections.

Current expenditure grew by MNT 379.1 billion or 38.6 percent, capital expenditure rose by MNT 111.3 billion, by 63.3 percent, while net lending showed a rise of MNT 21.7 billion or 27.5 percent.

A breakdown of current expenditure shows that expenditure on goods and services (48.7 percent) decreased by MNT 28.9 billion or 4.2 percent, while subsidies and transfers (49.9 percent) increased by MNT 407.8 billion or 150 percent, and interest payments (1.3 percent) rose by MNT 0.2 billion or 1.3 percent. Wages and salaries (44.1 percent of expenditure on goods and services) grew by MNT 95.8 billion or 48.7 percent.

A rise of MNT 124.8 billion or 49.9 percent in other transfers mainly influenced the growth in total subsidies and transfers. In turn, growth in other transfers was driven by an expansion of MNT 81.8 billion or 47.3 percent in social insurance expenditure and MNT 39.9 billion or 53.4 percent in transfers from social security funds. These expenditures rose as a result of Government implementation of measures on raising salaries and enhancing social security services.

Local Government Budget

Local government revenue generated MNT 149.4 billion and expenditure reached MNT 145.3 billion, which resulted in a surplus of MNT 4.1 billion.

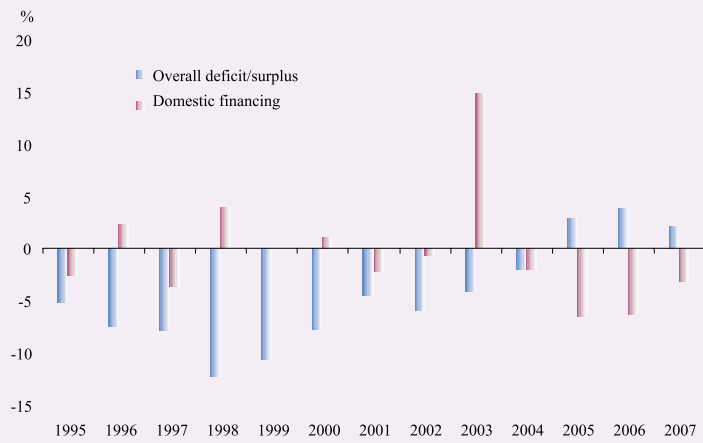


Figure 4.4.

Fiscal balance (percentage of GDP)

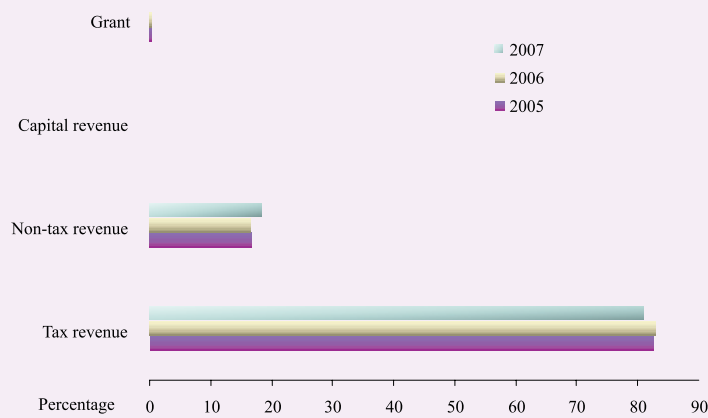


Figure 4.5.

Budget revenue and grants

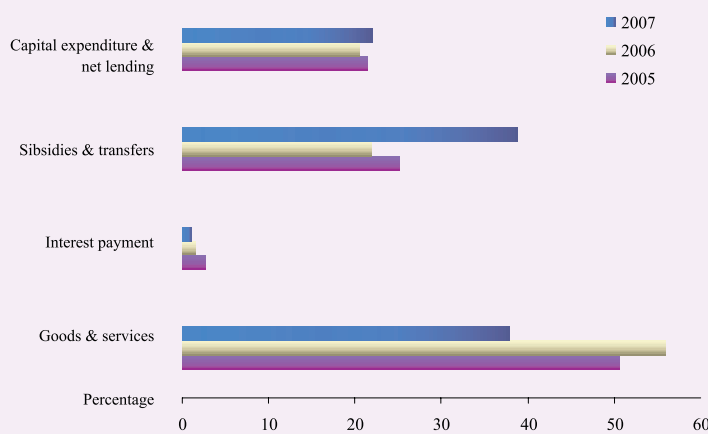


Figure 4.6

Budget expenditure and net lending

4.5 Capital Market

During this year, the Mongolian Stock Exchange held 253 overlapping sales, totaling 115.1 million shares of 307 companies, 542 thousand government bills and corporate bonds. The total market value reached MNT 102.4 billion, of which 60.6 percent or MNT 62.1 trillion was trade in shares, 38.6 percent or MNT 39.6 trillion was Government bonds, and 0.83 percent or MNT 0.8 trillion was trade in company bonds.

In comparison with the previous year, the trade value of shares rose by MNT 39.2 billion or 4.1 times, Government bonds by MNT 4.7 billion or 2 times, and the trade value of company bonds rose by MNT 0.8 billion or 1.8 percent. The Mongolian Stock Exchange aimed to trade MNT 80.0 billion in 2007 and at the end of the year, the total trade value had reached over MNT 102.0 billion.

There was a dramatic increase in market capitalization due to an increase in interest from the issuing of shares to raise capital, the listing of new companies and a boost in market value. This year Olloo, Hai Bi Oil, and Tuul Songino Usnii Nuuts companies registered on the market and their shares were traded successfully. 5 new companies obtained their broker's licenses, raising the total number of Broker companies to 30. Also 30 companies paid MNT 7.4 billion dividends to their shareholders. At the end of this year, the Mongolian Stock Exchange had total revenue of MNT 718.9 billion, a total expense of MNT 281.9 billion, returning MNT 358.1 million profits.

Table. 4.5. Capital market transaction /in million MNT/

	Transaction Amount		Change	
	2006	2007	Amount	Percent
Government bonds	4,461.5	39,599.3	35,137.8	787.6
Corporate Bonds	960.9	849.9	-111	-11.6
Shares	12,604.3	62,126.8	49,522.5	392.9

TOP-20 index closed at 10256.13 points, up by 5217.7 points or 403.9 percent from the previous year. This increase was due to the rise in the share prices of most companies in the index, especially Makhimpex, Shariin Gol, Telecom Communication, Tavan Tolgoi, Shivee Ovoo and BDSec.

Bond Trading

According to the resolution of the Great Khural, the Mongolian Government undertook to trade MNT 60.0 billion Government bonds to finance the "40000 apartment" project. The MSE held 10 rounds of trade in of 408.6 thousand Government discounted bonds, worth MNT 39.6 billion, with maturity dates of 28, 56, 91, 147, 203 days. Commercial banks were the main participants of these trade ins, while the Anod bank purchased 27 percent, Golomt bank 24.8 percent, HAAN bank 21.7 percent, TDB 21.2 percent, Mongol Post bank 4.9 percent and Capitron bank 0.2 percent respectively.

Also, 134.2 thousand of corporate bonds were sold in 55 sessions to a total value of MNT 850 million.

Securities trading

An average of 458.9 thousand shares worth MNT 245.6 million was traded daily. In comparison with the previous year, the number of shares traded in a day grew by MNT 366 or 3.2 times and their trade value increased by MNT 585.7 billion. The average share price went up by MNT 366 to reach MNT 535. Last year's market capitalization of 360 publicly traded companies amounted to MNT 131.9 billion, increased by MNT 585.7 reaching MNT 717.6 billion this year. Telecom Mongolia /MNT129 billion/, Baganuur /MNT 92.3 billion/, Gobi /MNT 13.3 billion/, NIC /MNT 52.4 billion/, Shivee Ovoo /MNT 52.3 billion/ had the highest market capitalization.

The most active securities in terms of trade volume were Tuul Songino Usnii Nuuts /13,701.1 thousand shares/, Olloo /2,748 thousand shares/, Genco Tour Bureau /2,230.8 thousand shares/, Mongol Shiltgeen /545.5 thousand shares/ UB BUK /333.6 thousand shares/, and Moninjbar /129.6 thousand shares/. In terms of trade value Tuul Songino Usnii Nuuts amounted to MNT 13.7 billion/, Olloo /MNT 678.6 million/, Mongol Shiltgeen /MNT 655.5 million/, Genco Tour Bureau /MNT 393.6 million/, UB BUK /MNT 316.9 million/, and NIC /MNT 144.6 million/.

Out of 384 companies whose shares were listed, the shares of 307 companies were actively traded and 77 companies did not trade any shares. Among these companies, the share price of 262 companies increased, those of 19 decreased, and the share prices of 26 remained stable.

This year, 116.1 million shares totaling MNT 62 trillion or 51.7 percent of total sales were traded on the primary market, while 73.9 million shares, totaling MNT 30 trillion or 48.3 percent were traded on the secondary market.

4.6. Balance of Payments

According to the preliminary Balance of payments statistics of 2007, the overall Balance of payments showed a surplus of USD 288.0 million. The Current account and Capital and Financial account showed a surplus of USD 75.8 million and USD 176.0 million respectively.

Current account

In the year of 2007, the Current account showed a surplus of USD 75.8 million because of a surplus of USD 212.3 millions of current transfers, increase in deficits of USD 11.3 millions of service balance and USD 79.5 millions of net income.

We can see if we study the dynamic movement of the current account, from 2004 to 2006 that the first two quarters were positive and the last two quarters were negative.

Foreign trade

In 2007, the turnover of foreign trade in the Balance of payments increased by 34.9 percent, reaching USD 3916.1 million.

Table 4.6 Balance of payment

/in million USD/

	2006	2007	Annual change	
			Value	Percentage
Export	1545.2	1952.4	407.2	26.4
Import	1356.7	1963.7	607.0	44.7
Trade turnover	2901.9	3916.1	1014.2	34.9
Trade balance	188.5	-11.3	-199.8	-106.0

Imports⁶ in the Balance of payments⁷ were increased by 44.7 percent to USD 1,963.7 million, while exports⁸ increased by 26.4 percent to USD 1,952.4 million compared to the previous year. The foreign trade showed a deficit of USD 11.3 million (Figure 5). The deficit of foreign trade is related to the rapid growth of imports.

Data from the General Customs Administration of Mongolia shows a USD 949.1 million, or 35.6 percent, increase in the total volume of foreign trade paid in hard currency turnover over the previous year, bringing the total amount to USD 3,615.8 million in 2007. The export revenues increased by 28.4 percent compared to the previous year, reaching USD 1,858.2 million and imports were 44.1 percent higher than in 2006 and reached USD 1,757.6 million.

Table 4.7 Trade paid in hard currency*

/in million dollars/

	2004	2005	2006	2007	Change	
					Value	Percentage
Export	734.1	962.7	1,447.1	1,858.2	411.1	28.4
Import	721.3	882.0	1,219.6	1,757.6	538.0	44.1
Trade turnover	1,455.4	1,844.7	2,666.7	3,615.8	949.1	35.6
Trade balance	12.8	80.6	227.5	100.6	126.9	-55.8

*not including barter trade, aid commodity supplied, commodities imported as investment, commodity supplied by loan, goods for inward processing and others from the total import

In 2007, Mongolian gold exports decreased by 24.7 percent, reaching 11.6 tons of gold. Due to diminishing gold exports, income from gold exports decreased by 13.0 percent compared to the previous year and reached USD 234.9 million. Gold export in terms of value was equivalent to 12.6 percent of the total export revenue (Table 6).

In Mongolia the price of 1 ton of copper was USD 1,335.2, which was 26.0 percent higher than that of the previous year. In the reporting year, 607.7 thousand tons of copper concentrate has been exported with export revenue of USD 811.5 million, representing an increase by 1.4 percent in volume from the previous year. Copper concentrate is Mongolia's most important export commodity, accounting for 43.5 percent of total exports in terms of value in 2007.

⁶ The import data obtained from the Customs administration was converted from c.i.f. into f.o.b. basis using coefficient of 11.0 percent. Transportation expense -10 percent and insurance -1 percent.

⁷ According to the new BOP compilation methodology of IMF

⁸ The duty free trade receipts were added to the exports data from Customs administration.

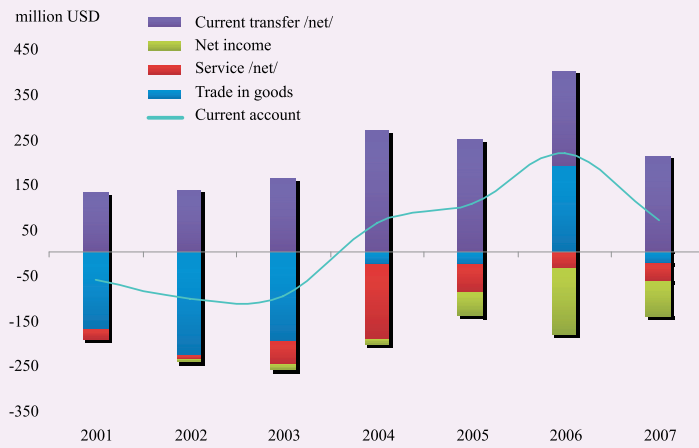


Figure 4.7
Components of Current account

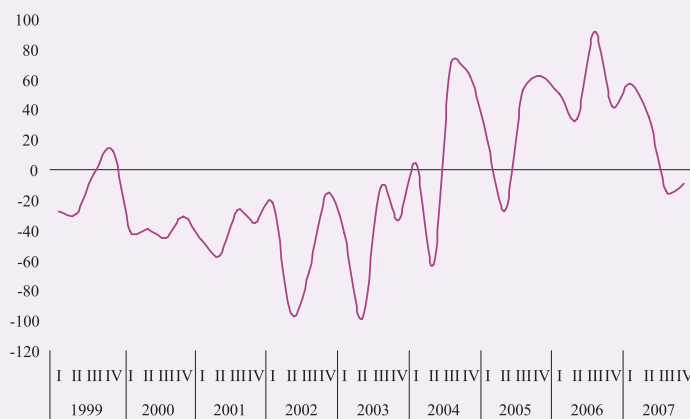


Figure 4.8
Current account /in million USD/

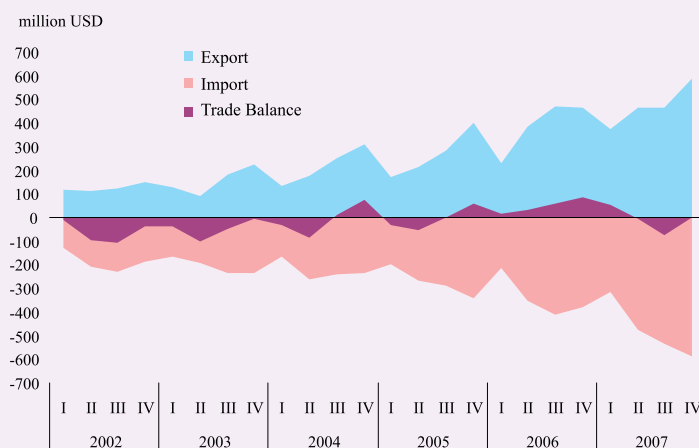


Figure 4.9
Foreign trade balance

Table 4.8 Main foreign trade in category

	2004	2005	2006	2007	Change USD	Change percentage
Gold export	243.2	331.4	270.1	234.9	-35.2	-13.0
Copper concentrate export	284.3	326.2	635.4	811.5	176.1	27.7
Oil import	206.1	292.4	410.1	559.5	149.5	36.5
In tonnage						
Gold export (tonnes)	19.3	23.8	15.4	11.6	-3.8	-24.7
Copper concentrate export (thousand tonnes)	562.6	587.1	599.5	607.8	8.2	1.4
Oil import (thousand tonnes)	562.2	549.5	637.3	793.6	156.3	24.5

Source: Mongolia Customs General Administration

In 2007, the revenue from Mongolian cashmere exports increased by 16.2 percent, reaching 4,577.5 tons of cashmere and 264.3 thousand cashmere products, earning USD 192.0 million, equivalent to 10.3 percent of total exports.

In the reporting year, gold, copper concentrate, cashmere, and cashmere products make up 66.6 percent of total exports.

The volume of oil imported by Mongolia increased by 24.5 percent or 156.3 thousand tonnes, reaching 793.6 thousand tonnes of oil (Table 5). Oil import accounted for 31.8 percent of total imports by value.

Term of trade

In 2007, the export price index increased by 56.8 points on the previous year, reaching 283.8 percent against the base year 2000. Meanwhile, the import price index decreased by 11.1 percent on the previous year, reaching 190.3 percent against the base year. The terms of the trade index over the reporting period was 36.4 percent higher than that of the previous year, reaching 149.1 percent against the base year 2000. (Figure 6, 7)

In the reporting year, in spite of an increase in the rice import price by 4.8 percent, wheat flour price by 28.1 percent, bread cakes and biscuit price by 8.9 percent, gasoline price by 9.3-10.1 percent, diesel fuel price by 5.9 percent, there was a decrease of parts of the motor vehicles by 8.1 percent, motorcycles price by 21.4 percent, synthetic filament 12.0 percent, electrical apparatus for line telephony by 63.3 percent, steel products by 30.3 percent, which led to an import price index decrease of 11.1 percent.

Even though, livestock intestines export were brought down by 11.9 percent, and the frozen beef price went down by 1.9 percent, the export price index increased by 56.8 points, which was due to increased prices for molybdenum concentrates by 66.8 percent, spar by 26.5 percent, copper concentrate by 26.0 percent, crude oil by 12.0 percent, sheep wool by 29.7 percent, cashmere by 11.8 percent, unwrought or semi-manufactured forms of gold by 20.0 percent.



Figure 4.10
Terms of trade

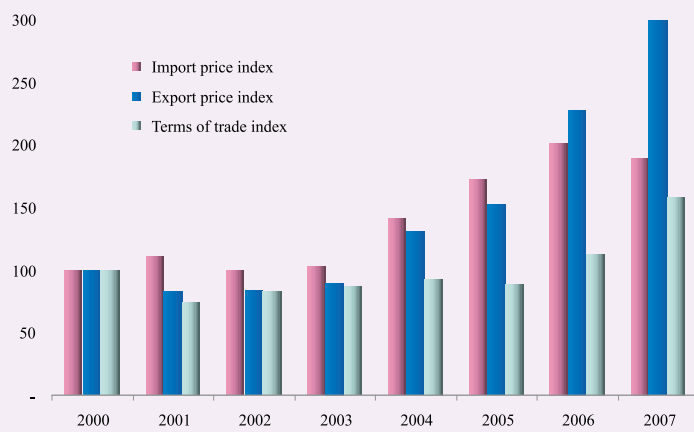


Figure 4.11
Export, import price index

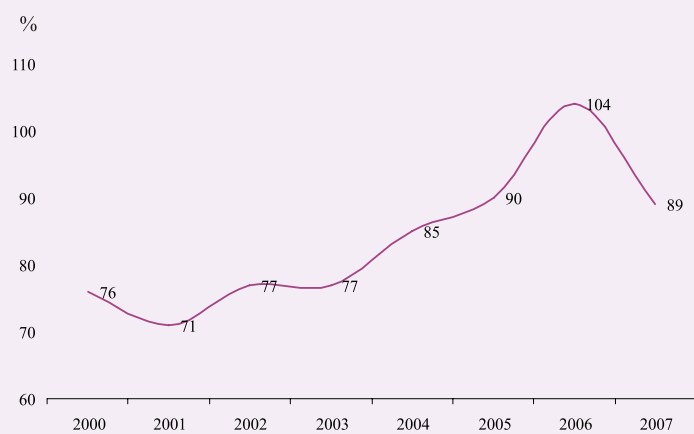


Figure 4.12
Export to import ratio

Export to import ratio

Total exports increased in 2007 by 26.3 percent from the previous year and reached USD 1,949.1 million. At the same time total import was 46.1 percent higher than a year earlier and reached USD 2,170.1 million. The foreign trade balance showed a deficit of USD 221.0 million and Mongolia's capability coefficient of buying imports by export revenues in the reporting period was 89.8 percent. (Figure 8)

Service

In 2007, service receipts accounted USD 573.9 million and service payments equaled USD 619.6 million resulting in a service account deficit of USD 45.7 million.

Although, the tourism sector revenue reached USD 120.4 million, because of the increasing imports⁹, payments of transportation and insurance services increased to USD 68.9 and 23.9 million respectively, and increasing payments of construction services of USD 19.9 million led to an increase in the deficits of the service account.

Estimations on the basis of average expenses derived from the survey conducted by the International Department of the Bank of Mongolia showed that 432.7 thousand tourists¹⁰ visited Mongolia in 2007, and revenues of the tourism sector comprised USD 287.0 million. Out of a total 990.6 thousand resident travelers¹¹, 321.5 thousand were tourists¹², who spent USD 166.6 million abroad.

Table 4.9 Tourism sector revenue and expenditure

	2006	2007	Annual change	
			Value	Percentage
Total revenue of tourism sector	206.4	287.0	80.6	39.1
Number of foreign tourist	309,128.0	432,746.0	123,618.0	40.0
Total expenditure of tourism sector	166.4	166.6	0.2	0.1
Number of Mongolian citizens visited abroad	817,600.0	990,588.0	172,988.0	21.2
Number of Mongolian tourists abroad	308,544.0	321,457.0	12,913.0	4.2
Tourism /net/	40.0	120.4	80.4	201.0

In 2007, other services showed a deficit of USD 42.0 million.

⁹ According to the new BOP compilation methodology, the import data obtained from the Customs administration was converted from c.i.f. into f.o.b. basis using coefficient of 11.0 percent, which comprise of 10 percent transportation expense and 1 percent insurance

¹⁰ Number of tourists visited Mongolia was obtained from the General authority for border protection.

¹¹ Number of Mongolian tourists crossed the border was obtained from Ministry of Road, Transport and Tourism

¹² Number of tourists who visited Mongolia and Mongolian tourists who crossed the border has been obtained from the General authority for border protection.

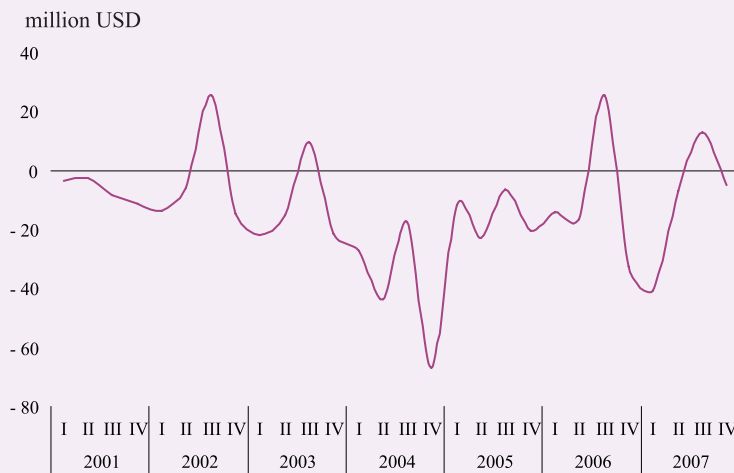


Figure 1.13
Service balance

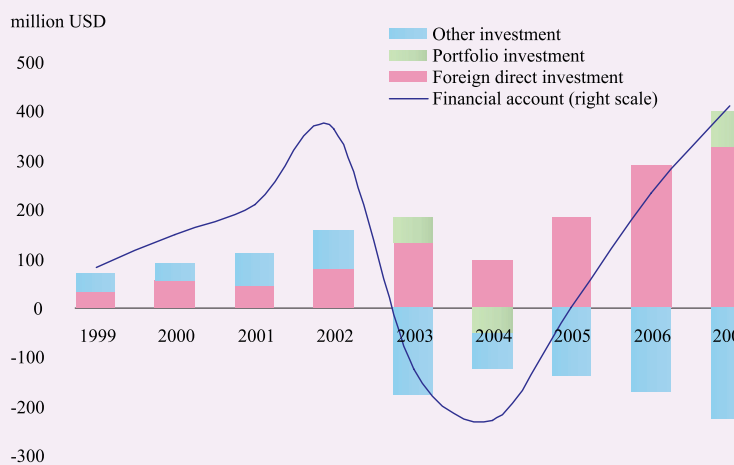


Figure 4.14
Capital and financial account (In millions of USD)

Net income

The Net income account had a deficit of USD 79.2 million. The dividends paid by joint venture companies to their foreign shareholders account for USD 107.7 million. The Government, banks and the private sectors paid USD 19.0 millions of interest payments on foreign loans and deposits; and received USD 49.7 millions of interest rate income on deposits; the compensation of employees reached to USD 3.8 million.

Current transfers

The Mongolian Government received technical assistance of USD 109.0 million. A total of USD 174.3 million in workers remittances was received from abroad and the transfer of USD 90.3 million was remitted to abroad, totaling a surplus of USD 212.3 million in current transfers.

Table 4.10 Workers remittance

	2006	2007	Annual change	
			Value	Percentage
Workers remittance	77.1	83.9	6.9	8.9
Incoming	153.6	174.3	20.7	13.5
Outgoing	76.5	90.3	13.8	18.0

Capital and Financial account

The capital and financial account showed a surplus of USD 176.0 million, an increase of 51.3 percent compared to the previous year. The inflow of foreign direct investments rose by USD 38.1 million from that of 2006, reaching USD 327.7 million. The other investments remained in deficit at USD 226.6 million which is 1.4 higher compared to the previous year.

In the reporting year, USD 81.9 million Government loan disbursements were made. Loans from the Asian Development Bank and the World Bank accounted for 60.2 percent of the total loans. The Government paid USD 44.3 million for debt service, of which USD 30.0 million were for the principal, and USD 14.8 million were for interest payments.

Appendix 1. Reporting Balance of Payments table (In millions of USD)

Components	2007				
	I quarter	II quarter	III quarter	IV quarter	Annual (preliminary)
I. Current Account (A+B+B)	57.3	35.3	-14.4	-2.3	75.8
A. Trade balance (a+b)	14.4	-14.4	-59.6	2.5	-57.0
a. Goods (1-2)	55.2	-7.6	-72.2	13.3	-11.3
1. Export F.O.B.	372.0	465.8	464.2	650.4	1952.4
1.1. Copper concentrate	138.8	211.6	231.9	229.2	811.5
1.2. Non-monetary gold	99.8	45.0	38.6	51.5	234.9
1.3. Other	133.5	209.2	193.6	369.7	906.0
2. Import F.O.B.	-316.9	-473.4	-536.4	-637.1	-1963.7
b. Service (1+2+3+4+5+6)	-40.7	-6.8	12.7	-10.8	-45.7
1. Transportation /net/	-10.0	-7.7	-19.1	-37.5	-74.2
2. Travel /net/	-5.5	22.5	45.8	47.9	110.7
O/w: tourism /net/	1.4	20.1	47.0	51.9	120.4
3. Communication services /net/	1.9	1.4	0.8	0.0	4.1
4. Construction services /net/	-13.2	-0.5	-4.4	-1.8	-19.9
5. Insurance services /net/	-3.8	-5.6	-6.9	-8.1	-24.4
6. Other services /net/	-10.1	-17.0	-3.6	-11.2	-42.0
B. Net Income (a+b)	7.5	-7.8	-18.3	-60.9	-79.5
a. Compensation of employees /net/	0.5	0.2	1.0	2.0	3.8
b. Investment income /net/	7.0	-8.0	-19.3	-62.9	-83.2
C. Current transfers (a+b+c)	35.3	57.5	63.5	56.0	212.3
a. Compensation of employees /net/	20.9	33.1	31.0	23.2	108.2
b. Private remittance	14.0	21.4	24.1	24.4	83.9
1. Credit	26.4	41.4	53.0	53.5	174.3
2. Debit	12.4	19.9	28.9	29.1	90.3
c. Other transfers /net/	0.4	3.0	8.3	8.4	20.1
II. Capital and Financial Account (A+B)	57.7	-75.0	24.4	169.0	176.0
A. Capital Account	0.0	0.0	0.0	0.0	0.0
B. Financial Account (a+b+c)	57.7	-75.0	24.4	169.0	176.0
a. Direct investment /net/	21.3	52.3	82.1	172.1	327.7
b. Portfolio investment	74.8	0.0	1.3	-1.2	74.9
1. Assets	0.0	0.0	0.0	-1.2	-1.2
2. Liabilities	74.8	0.0	1.3	0.0	76.0
c. Other investment	-38.4	-127.3	-59.1	-1.8	-226.6
1. Trade credits /net/	-2.1	-26.9	-44.7	60.4	-13.2
2. Loans /net/	-64.9	-64.8	21.6	0.4	-107.6
2.1 Long-term	7.6	17.1	11.2	39.5	75.5

2.1.1 Assets	-0.1	0.0	0.0	1.0	0.9
2.1.1.1 Government	0.0	0.0	0.0	0.0	0.0
2.1.1.2 Other sector	-0.1	0.0	0.0	1.0	0.9
2.1.2 Пассив	7.7	17.1	11.2	38.5	74.6
2.1.2 Liabilities	17.1	62.6	20.8	60.5	160.9
2.1.2.1 Disbursement	9.7	27.0	13.5	31.7	81.9
2.1.2.1.2 Other sectors	7.4	35.6	7.3	28.8	79.1
2.1.2.2 Principle payment	9.4	45.5	9.6	21.9	86.3
2.1.2.2.1 Government	5.0	7.7	7.3	9.4	29.4
2.1.2.2.2 Other sectors	4.4	37.7	2.3	12.5	56.9
2.2 Short-term	-72.4	-82.0	10.4	-39.1	-183.1
2.2.1 Assets	-73.3	-96.8	-15.2	-38.2	-223.5
2.2.2 Liabilities	0.9	14.9	25.6	-1.0	40.4
2.2.2.1 Disbursement	5.4	19.3	42.1	12.8	79.6
2.2.2.2 Principle payment	4.5	4.5	16.5	13.7	39.3
3. Currency and deposits /net/	29.4	-30.4	-34.2	-42.1	-77.3
4. Other assets /net/	-0.8	-5.2	-1.9	-20.6	-28.4
III. Net errors and omissions	50.5	162.7	62.2	-239.3	36.1
IV. Overall Balance of Payment (I+II+III)	165.5	123.0	72.2	-72.6	288.0
V. Reserve assets (A+B-C)	-165.5	-123.0	-72.2	72.6	-288.0
A. Monetary gold	-54.8	18.7	18.8	44.4	27.1
B. Other claims /net/	-112.3	-142.6	-92.6	26.9	-320.6
C. Use of Fund credit	-1.5	-0.9	-1.7	-1.3	-5.4

Memorandum items :

Export f.o.b (Quarterly growth) in percent	61.5	21.8	-1.1	40.4	26.4
Imports f.o.b (Quarterly growth) in percent	48.4	34.6	30.0	68.1	44.7
Exports of goods & services	79.4	57.1	47.6	90.4	64.9
In percent of GDP					
Imports of goods & services	76.9	58.5	52.0	90.1	66.3
In percent of GDP					
Current account surplus, deficit (-) (in percent of GDP)	9.9	3.4	-1.1	-0.3	1.9
Net official reserves (end-period) (in million USD)	852.8	975.7	1045.5	975.3	975.3
In weeks of import	31.4	29.1	28.6	24.0	24.0
Nominal GDP (in thousand USD)	579.6	1049.7	1356.3	908.4	3894.1

BOX 11. Enterprise survey

The Bank of Mongolia has been conducting the enterprise survey since 2001. The purpose of this survey is to expand the scope of the Balance of payments and to improve its components.

Through the enterprise surveys, short term capital flow and foreign direct investments of Mongolian balance of payments are improved and the relevant database is updated. In order to collect necessary information; to expand and improve the balance of payments coverage; and to introduce an electronic data exchange system, the Bank of Mongolia conducted the enterprise survey in July 2007.

According to the enterprise statistics of the National Statistics Office of Mongolia, in 2006 there were 765 enterprises with a sales income of 500 million MNT or above. From among these enterprises 460 companies (60.1 percent of total enterprises) were selected in the enterprise survey conducted by the Bank of Mongolia. The response rate of this enterprise survey was 52.6 percent, which is a favorable indicator compared to the practice of other countries.

As a result of this survey, an agreement of data exchange will be signed with 22 selected enterprises, and their reports will be used in the compilation of the balance of payments and the International investments position of Mongolia.

In addition, the enterprise survey will expand the coverage of the balance of payments components such as services, income, short term capital, medium and long term loans, trade credits, leasing, franchising etc., Also, it can improve the compilation methodology of transportation and insurance of imported goods, private remittances and some other components of the services account.

BOX 12. Estate of adjacent countries in Mongolian foreign trade

Mongolian total exports increased in 2007 by 28.9 percent from the previous year and reached USD 1,865.2 million. At the same time total import was 43.4 percent higher than a year earlier and reached USD 1,748.7 million. The foreign trade turnover increased by 35.5, accounting USD 3,613.9.

Table 2. Foreign trade

	2000	2001	2002	2003	2004	2005	2006	2007	Annual change
Total import	614.5	630.1	659.0	787.4	1,021.1	1,184.4	1,485.6	2,117.3	42.5%
Import paid in hard currency	332.8	374.2	470.6	538.5	721.3	882.1	1,219.6	1,748.7	43.4%
Barter trade	3.1	1.6	0.4	0.2	0.5	0.1	0.2	0.7	247.7%
Aid commodity supplied	84.9	81.9	46.1	41.8	52.5	29.1	40.3	42.2	4.8%
Commodities imported as investment	69.3	61.9	27.4	99.3	95.0	152.6	146.1	172.8	18.3%
Commodities supplied by loan	25.0	25.0	30.2	25.5	52.0	36.9	16.4	39.7	141.7%
Goods for inward processing	76.4	59.8	81.4	77.5	98.7	72.2	56.3	32.1	-43.0%
Other	23.1	25.6	2.9	4.5	1.1	11.3	6.8	81.1	1092.6%
Total import from China	109.5	120.1	132.8	172.4	224.9	295.0	403.8	661.9	63.9%
Percentage of import	17.8%	19.1%	20.2%	21.9%	22.0%	24.9%	27.2%	31.3%	15.0%
Import paid in hard currency	89.1	94.4	117.4	150.3	187.4	237.1	334.4	551.0	64.8%
Percentage of import paid in hard currency	26.8%	25.2%	24.9%	27.9%	26.0%	26.9%	27.4%	31.5%	14.9%
Aid commodity supplied	8.0	7.9	7.7	3.6	7.8	9.3	6.4	6.6	3.1%
Commodities supplied by loan	3.3	5.9	1.0	1.0	12.2	11.4	11.1	24.0	116.2%
Commodities imported as investment	9.2	11.9	6.8	17.5	17.6	37.1	51.9	80.3	54.7%
Total import from Russian Federation	206.2	221.1	224.6	257.0	341.9	417.9	547.8	732.1	33.6%
Percentage of import	33.6%	35.1%	34.1%	32.6%	33.5%	35.3%	36.9%	34.6%	-6.2%
Import paid in hard currency	164.5	181.5	199.2	207.3	319.9	344.4	471.5	655.9	39.1%
Percentage of import paid in hard currency	49.4%	48.5%	42.3%	38.5%	44.4%	39.0%	38.7%	37.5%	-3.0%
Aid commodity supplied	6.8	7.9	3.2	4.3	0.5	3.0	7.3	8.1	11.8%
Commodities supplied by loan	0.4	0.4	11.2	1.9	4.0	3.6	1.3	1.7	28.9%
Commodities imported as investment	34.5	31.3	11.0	43.4	17.6	66.8	67.7	66.3	-2.1%
Other import	298.8	288.9	301.6	358.1	454.3	471.4	534.0	723.3	35.4%
Percentage	48.6%	45.8%	45.8%	45.5%	44.5%	39.8%	35.9%	34.2%	-5.0%
Other import paid in hard currency	79.1	98.3	154.0	180.9	213.9	300.5	413.7	541.8	31.0%
Percentage	23.8%	26.3%	32.7%	33.6%	29.7%	34.1%	33.9%	31.0%	-8.7%
Total export	466.1	521.5	500.9	615.9	869.7	1,064.9	1,542.8	1,888.9	22.4%
Export paid in hard currency	326.0	400.5	391.0	493.5	734.0	962.6	1,447.1	1,865.1	28.9%

Barter trade	21.0	20.9	19.9	7.5	4.0	2.2	1.0	0.2	-76.7%
Goods for inward processing	95.7	94.7	86.6	108.0	128.8	91.6	79.5	9.5	-88.1%
Commodity for payment	5.1	2.0							
Other unpaid export	18.4	3.4	2.4	6.9	2.8	8.5	15.2	14.1	-7.2%
Export to China	267.1	231.6	208.9	284.2	407.2	512.4	1,046.5	1,400.1	33.8%
Percentage	57.3%	44.4%	41.7%	46.2%	46.8%	48.1%	67.8%	74.1%	9.3%
Export to Russian Federation (RF)	45.1	43.8	43.1	37.5	20.6	27.2	45.1	57.3	27.0%
Repayment to RF in kind of good	5.1	2.0							
Percentage	9.7%	8.4%	8.6%	6.1%	2.4%	2.6%	2.9%	3.0%	3.7%
Other export paid in hard currency	13.8	125.1	139.0	171.7	306.2	423.0	355.4	407.7	14.7%
Percentage	4.2%	31.2%	35.6%	34.8%	41.7%	43.9%	24.6%	21.9%	-11.0%
Foreign trade turnover	-148.4	-108.6	-158.1	-171.5	-151.5	-119.5	57.2	-228.4	-499.4%
Balance of Trade paid in foreign currency	-6.8	26.2	-79.6	-45.1	12.7	80.5	227.5	116.3	-48.9%
Bilateral Balance of Trade (Mongolia & China)	157.6	111.4	76.1	111.9	182.3	217.3	642.7	738.2	14.9%
Balance of Trade paid by foreign currency (Mongolia & China)	178.0	137.2	91.6	133.9	219.8	275.2	712.1	849.1	19.2%
Bilateral Balance of Trade (Mongolia & Russia)	-161.1	-177.3	-181.6	-219.5	-321.3	-390.7	-502.7	-674.8	34.2%
Balance of Trade paid by foreign currency (Mongolia & Russia)	-119.4	-137.7	-156.2	-169.8	-299.3	-317.2	-426.4	-598.6	40.4%
Total Trade Turnover	1,080.6	1,151.6	1,159.9	1,403.3	1,890.8	2,249.2	3,028.4	4,006.2	32.3%
Trade turnover paid in foreign currency	658.7	774.7	861.6	1,032.0	1,455.3	1,844.6	2,666.6	3,613.8	35.5%
Trade Turnover between Mongolia & China	376.6	351.7	341.7	456.6	632.1	807.4	1,450.3	2,062.0	42.2%
Percentage	34.8%	30.5%	29.5%	32.5%	33.4%	35.9%	47.9%	51.5%	7.5%
Trade turnover paid in foreign currency btw Mongolia & China	356.2	326	326.3	434.6	594.6	749.5	1380.9	1951.1	41.3%
Percentage	54.1%	42.1%	37.9%	42.1%	40.9%	40.6%	51.8%	54.0%	4.3%
Trade Turnover between Mongolia & Russia	251.4	264.9	267.7	294.5	362.6	445.2	592.9	789.4	33.1%
Percentage	23.3%	23.0%	23.1%	21.0%	19.2%	19.8%	19.6%	19.7%	0.6%
Trade turnover paid in foreign currency btw Mongolia & Russia	204.6	223.3	242.3	244.8	340.6	371.7	516.6	713.2	38.1
Percentage	31.1%	28.8%	28.1%	23.7%	23.4%	20.7%	19.4%	19.7%	1.9%

Source: Mongolian customs general administration

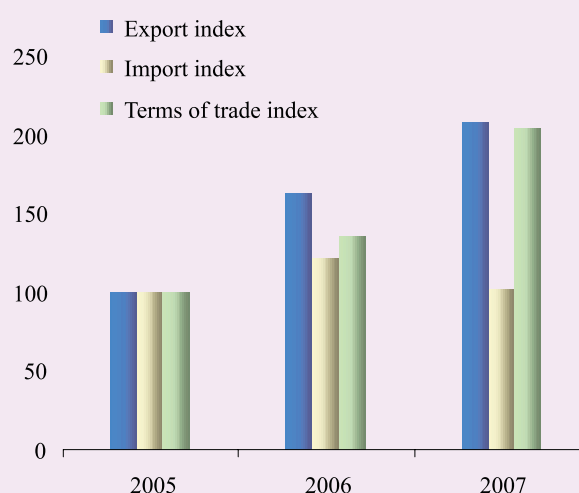
Mongolia and China terms of trade

Mongolian import paid in hard currency from China increased by 64.8 percent, reaching USD 551.0 million and Mongolian export to China increased by 33.8 percent to USD 1,400.1 million. Import paid in hard currency for Mongolia showed a surplus of USD 849.1 million.

Foreign trade turnover between Mongolia and China increased by 41.3 percent, accounting for USD 1,951.2 million, which make up 54.0 percent of the total foreign trade turnover. China's import trade in hard currency comprised 31.3 percent of total import paid in hard currency and export trade in hard currency made up 74.1 percent of total export in hard currency.

Mongolian foreign trade turnover to China made up 0.12 percent of China's total foreign trade turnover.

Figure 1. Mongolia and China terms of trade



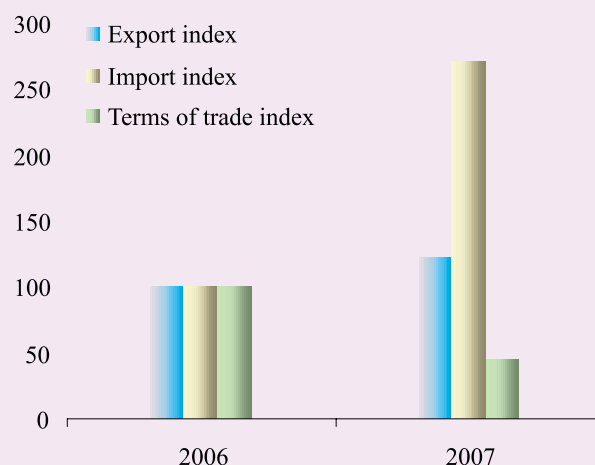
The import price index of China's import products decreased by 19 percent, reaching 102 percent. The export price for mineral products rose, and export price index increased by 44.0 percent to 207 percent. These changes led to terms of trade increasing by 1.5 points to 203.7.

Mongolia and Russia terms of trade

Mongolian import from Russia, paid in hard currency, increased by 39.1 percent to USD 655.9 million and Mongolian export to Russia increased by 27.0 percent to USD 57.3 million. Import paid in hard currency for Mongolia showed a surplus of USD 598.6 million.

Foreign trade turnover between Mongolia and Russia increased by 38.1 percent, accounting for USD 713.2 million, which made up 19.7 percent of total foreign trade turnover. Russia's import trade in hard currency comprised 37.5 percent of total import paid in hard currency and export trade in hard currency made up 3.0 percent of total export in hard currency. Mongolian foreign trade turnover to Russia made up 1.3 percent of Russia's total foreign trade turnover.

Figure 2. Mongolia and Russia terms of trade



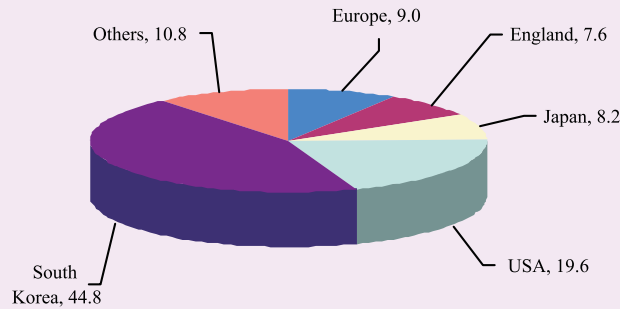
In the reporting year, in spite of the fact that an increase in the price of fluorspar by 33.3 percent, the price of cashmere products by 91.4 percent, and camel wool products by 24.4 percent led to export price index increase by 22.6 percent to 122.6 percent, a reduction of wheat flour by 34.1 percent and the price of oil products by 7.9 percent led to an import price index increase by 2.7 points to 270 percent. These changes led to terms of trade being increased by 54.7 percent to 45.3.

BOX 13. Private remittance consumption effect on macro economy

In order to identify the actual influence of personal remittances on the economy and the banking and financial sectors of Mongolia, a "Private remittance consumption survey" was conducted during 10-28 March 2007, in collaboration with 13 commercial banks, among its 1345 customers who receive remittances from abroad.

The findings of the survey indicate that the majority of respondents receive remittances from Mongolian citizens who live and work in South Korea (44.8 percent), USA (19.4 percent) and Europe (9 percent).

Figure 1. Structure of remittances, by countries



The following Table shows the consumption of personal remittances

Table 1. Consumption of personal remittances

		Consumption of Remittances /by percent/						
		To relatives and families	Daily grocery	Renovation of apartment	Purchase of apartment	Investment	Pay debt	Other
1	South Korea	33.1	13.8	4.7	16.4	11.8	12.2	7.9
2	Japan	32.9	15.2	4.1	14.1	7.7	11.1	14.7
3	USA	30.1	15.9	6.0	12.3	13.6	8.4	13.6
4	England	28.6	23.0	4.4	10.6	8.4	8.4	16.3
5	European countries	29.4	16.7	4.5	4.5	12.6	15.2	16.8
6	Others	26.2	23.4	9.5	10.6	5.5	8.4	16.2
Total respondents		662.0	343.0	112.0	284.0	235.0	235.0	248.0

Note: Respondents chose more than one answers

From the above table, it can be seen that while part of the received remittances is spent on the family consumption and deposits, the rest of it goes into investment. The prevalent types of investments using remittances are: purchase of apartments (22.9 percent), running businesses (32.8 percent) and agriculture and mining (7.6 percent).

The above study shows that 29.8 percent of respondents are willing to invest, purchase apartments and renovate, and 66 percent are interested in saving to a certain extent. It shows a possible trend of an increase in savings and investments in the economy. Furthermore, 39 percent of the respondents receive remittances every month and 56 percent of them receive more than USD 500 per remittance. This illustrates the importance of remittances in consumption and investment in the economy.

BOX 14. International investment position

The International Investment Position (IIP), which is the recognized framework for the presentation of a country's stock of external assets and liabilities, was produced by 37 countries in 1998 and the number increased to 105 countries in 2006.

Growing foreign trade, foreign investment and foreign financing forced us to urgently produce international investment position statistics, as a result of which we have adopted the "Manual on compiling International Investment Position" on May 2007, which was approved by Order #219 of the Governor of the Bank of Mongolia.

The preliminary international investment position of 2006 was compiled using the following data sources: net foreign reserve statement of the Bank of Mongolia, consolidated balance sheet of commercial banks, the Enterprise Survey conducted by the International department in 2007.

According to this statement, foreign liabilities of our country were greater than foreign assets and the Net International Investment Position was negative equaling USD 889.05 million as of 31st December 2006.


**SUMMARY OF POLICY AND
PROCEDURE APPROVED BY THE CENTRAL
BANK OF MONGOLIA IN YEAR 2007**

5

No.	Date	Decree No.	Title of policy and procedure	Main description
1.	02. 12	91	Amendment to the regulation on inter-bank high value and low value payments.	In the amendment two articles have been changed as follows: Article 5.5 /regulation on inter-bank high value payments/ Transactions related to overnight loan, repurchase, deposit and inter-bank loan, with the purpose of maintaining banks compulsory reserve, shall be effected by BOM before 17.00 pm, based on transaction documents received through verified fax and courier. Urgent transactions of Mongolian and foreign currency shall be carried out with a charge of 100 000 MNT. Article 5.4 /regulation on inter-bank low value payments/ Switch Clearing Center /SCC/ will enforce payment messaging standard as stated in section 2.1.7 of this regulation. In case of non-compliance of the SCC reserves it is eligible to offer banks limited services with the fees 5 (five) times higher than those of complying banks.
2.	03.05	118	Regulation on controlling required reserves	The regulation has been revised in order to pursue the setting of reserve requirements on bank deposits and for monitoring its maintenance with the purpose of controlling money supply by the Bank of Mongolia and of satisfying bank liquidity demand.
3.	03.20	134	Cancellation of regulations	The regulations on prudential ratio policy and procedure of Savings and credit cooperatives, which were approved by the Governor Decree No. 576 of the year 2005 have been cancelled
4.	04.23	204	Regulation on establishing contracts for foreign exchange trade and deposit between the bank of Mongolia and commercial banks	An amendment has been made to improve the daily reporting system to Bank of Mongolia and the setting of the deposit rate. Please refer to the Governor Decree No. 204 for more details.
5.	07.02	311	Amendment to the Central bill auction regulation	In order to improve the regulation related to the sale of Central bank bills and monetary policy an amendment has been made to the regulation. In connection with the amendment, the Governor Decree No.461 has been cancelled.

6.	07.02	312	Regulation to identify bank customers to prevent money laundering and the financing of terrorism	This regulation has been adopted in order to identify bank customers, within the scope of combating money laundering and the financing of terrorism, to enable banks to support market development, to have a more transparent financial system, to promote fair business among customers, to support good governance, to prevent financial crimes such as fraud and manipulation of financial assets and hence to secure the good reputation of banking institutions.
7.	07.02	313	Regulation on reporting suspicious and cash transactions	The purpose of this regulation is to detect suspicious transactions, ensure safety and security of the information on suspicious transactions, and regulate the transmission mechanism of suspicious and cash transaction reports from management and officers of the commercial banks to the "Financial Information Unit" and to other related organizations.
8.	10.30	491	Regulation on setting and monitoring prudential ratios to commercial banks	This regulation has been revised to comply with article 15 of the banking law of Mongolia, to assess with precision the prudential ratios of commercial banks and control its optimal level by the bank of Mongolia, and to undertake the enforcement measure stated in article 31 of the banking law.
9.	11.21	547	Amendment to the regulation on reporting suspicious and cash transactions	This amendment has been made to define some necessary terminologies and improve the and upgrade customer related information and database. Please refer to the Governor Decree No. 547 for more details.
10.	11.21	547	Amendment to the regulation on reporting suspicious and cash transactions	This regulation has been amended in order to improve and define more clearly the reporting system of suspicious transactions. According to the amendment it reports must be made not only to the Financial Intelligence Unit, but also to the Book accounting department. As an attachment, 5 application forms to use for reporting the transactions have been developed. Please refer to the Governor Decree No. 547 of 2007 for more details.

BOARD OF DIRECTORS' RESPONSIBILITY STATEMENT

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

The financial statements of Bank of Mongolia have been prepared to comply with International Financial Reporting Standards. The Board of Directors is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2007 and the results and cash flows for the year then ended on that date.

The Board of Directors have responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply with the requirements set out in Note 2 thereto.

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

The Board of Directors consider that, in preparing the financial statements on pages 4 to 55, they have used appropriate policies, consistently applied and supported by reasonable and prudent judgement and estimates, and that all applicable accounting standards have been followed.

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



A. BATSUKH
Governor, Bank of Mongolia

Ulaanbaatar



REPORT OF THE INDEPENDENT AUDITORS

To the member of Bank of Mongolia

We have audited the accompanying financial statements of Bank of Mongolia, which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



REPORT OF THE INDEPENDENT AUDITORS (CONT'D.)

To the member of Bank of Mongolia

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 19 to the financial statements which describes the possible non-compliance of Article 23 of the Law on Central Bank.

Ernst & Young Mongolia Audit LLC

A red circular stamp is located below the signature. The stamp contains the text 'ERNST & YOUNG MONGOLIA AUDIT LLC' around the perimeter and 'ЭРНСТ энд ЯНГ МОНГОЛИЯ АУДИТ ХХК' in the center.

Ulaanbaatar

BANK OF MONGOLIA

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 MNT 'million	2006 MNT 'million
Interest income	3	48,414	18,779
Interest expenses	4	(18,895)	(8,072)
Net interest income		29,519	10,707
Net gain from trading of gold and precious metal	5	29,831	2,309
Foreign currency gain/(loss), net	6	26,959	(7,487)
Other operating income		1,879	1,204
Total operating income		88,188	6,733
Allowances for impairment loss	7	(39,451)	-
Net operating income		48,737	6,733
Administrative expenses	8	(4,890)	(4,667)
Other operating expenses	10	(36,719)	(5,199)
Profit/(loss) for the year		7,128	(3,133)

The accompanying notes form an integral part of the financial statements.

BANK OF MONGOLIA

BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 MNT 'million	2006 MNT 'million
ASSETS			
Cash in hand		23,197	20,792
Gold bullion and precious metals	11	365,295	167,870
Due from foreign financial institutions	12	831,192	612,859
Derivative financial instruments	13	-	11,195
Financial investments - available-for-sale	14	115,748	60,701
Reverse repurchase agreements	15	64,582	115,967
Loans to local banks	16	19,292	18,373
Loan to Ministry of Finance	17	29,604	35,822
Property, plant and equipment	18	18,093	18,276
Other assets	19	2,416	19,464
TOTAL ASSETS		1,469,419	1,081,319
LIABILITIES			
Cash in circulation		364,074	245,099
Derivative financial Instruments	13	-	11,272
Central bank bills	20	103,425	70,845
Liabilities due to foreign parties	21	149,502	150,633
Deposits from government agencies	22	603,332	405,129
Deposits from local banks	23	171,027	148,542
Other liabilities	24	38,346	16,683
TOTAL LIABILITIES		1,429,706	1,048,203
CHARTER FUND AND RESERVES			
Charter fund	25	5,000	5,000
Retained earnings		5,130	4,561
General reserves	26	15,704	11,145
Other reserves	27	13,879	12,410
TOTAL EQUITY		39,713	33,116
TOTAL EQUITY AND LIABILITIES		1,469,419	1,081,319

The accompanying notes form an integral part of the financial statements.

BANK OF MONGOLIA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Charter Fund MNT 'million	Non-Distributable General Reserve (Note 26) MNT 'million	Other Reserves (Note 27) MNT 'million	Distributable Retained Earnings MNT 'million	Total MNT 'million
At 1 January 2006	5,000	11,145	21,317	(350)	37,112
Net loss on available-for-sale financial investments,	-	-	-	-	-
representing total expense recognised directly in equity	-	-	(67)	-	(67)
Loss for the year	-	-	-	(3,133)	(3,133)
Total income and expense for the year	-	-	(67)	(3,133)	(3,200)
Transfer to Social Development Fund	-	-	-	(796)	(796)
Transfer of unrealised foreign exchange losses	-	-	(8,840)	8,840	-
At 31 December 2006 and at 1 January 2007	5,000	11,145	12,410	4,561	33,116
Net gain on available-for-sale financial investments	-	-	-	-	-
representing total income recognised directly in equity	-	-	1,469	-	1,469
Profit for the year	-	-	-	7,128	7,128
Total income and expense for the year	-	-	1,469	7,128	8,597
Transfer to Social Development Fund	-	-	-	(2,000)	(2,000)
Transfer from retained earnings to General Reserve	-	4,559	-	(4,559)	-
At 31 December 2007	5,000	15,704	13,879	5,130	39,713

The accompanying notes form an integral part of the financial statements.

BANK OF MONGOLIA

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 MNT 'million	2006 MNT 'million
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	7,128	(3,133)
<i>Adjustments for :-</i>		
Unrealised (gain)/loss on revaluation of gold	(27,757)	87
Unrealised (gain)/loss on revaluation of foreign exchange	(19,198)	8,491
Unrealised loss on revaluation of precious metals	-	505
Depreciation of property, plant and equipment	857	877
Property, plant and equipment written off	17	17
Provision for claims under documentary letter of credit issued	27,889	-
Allowances for impairment losses on other assets	39,329	-
Operating profit before working capital changes	28,265	6,844
<i>Changes in operating assets:-</i>		
Gold bullion and precious metals	(169,668)	(158,569)
Financial investments - available-for-sale	(53,578)	(28,423)
Reverse repurchase agreements	51,385	(56,260)
Due from foreign financial institutions	(200,054)	(221,875)
Loans to local banks	(919)	(758)
Loan to Ministry of Finance	6,218	101,453
Other assets	(22,281)	(12,502)
<i>Changes in operating liabilities:-</i>		
Cash in circulation	118,975	53,413
Derivative financial instruments	(77)	-
Central bank bills	32,580	(54,868)
Liabilities due to foreign parties	(1,131)	(8,243)
Deposits from government agencies	198,203	314,831
Deposits from local banks	22,485	58,994
Other liabilities	(8,226)	16,050
Net cash flow generated from operating activities	2,177	10,087
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	11	7
Purchase of property, plant and equipment	(702)	(1,614)
Net cash flow used in investing activities	(691)	(1,607)
Net increase in cash and cash equivalents	1,486	8,480
Effect of foreign exchange difference	919	196
Cash and cash equivalents at 1 January	20,792	12,116
Cash and cash equivalents at 31 December	23,197	20,792

The accompanying notes form an integral part of the financial statements.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

1. CORPORATE INFORMATION

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

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

The Bank is the organization in charge of implementing national monetary policy within the territory of Mongolia. Its primary objectives are to ensure stability of the Mongolian national currency - Togrog and to promote balanced and sustained development of the national economy, through maintaining the stability of financial markets and banking system.

The Bank of Mongolia conducts the following activities in order to achieve its objectives. These are:

- Formulation and implementation of the monetary policy by regulating money supply in the economy
- Acting as the Government's fiscal intermediary
- Supervision of banking activities
- Organization of inter-bank payments and settlement
- Holding and management of the State reserves of foreign currencies
- Issuing currencies into circulation

The financial statements of the Bank for the year ended 31 December 2007 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a historical cost basis, except for buildings, derivative financial instruments and available-for-sale financial investments that have been measured at fair value. The financial statements are presented in Mongolian Togrog, which is denoted by symbol MNT, rounded to the nearest million, except when otherwise indicated.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments except those classified as held for trading or designated at fair value through profit or loss are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income is recognised in the income statement as it accrued, except in the case of impaired loans and advances. Interest on impaired financial assets is recognised at the original effective interest rates of the financial assets applied to the impaired carrying amount.

(b) Commission income

Commission income derived by the Bank relate mainly to inter-bank settlement and foreign bank settlement. Commission income are generally recognised on an accrual basis when the service has been provided.

(c) Foreign currencies translation

The financial statements are presented in Mongolian Togrog, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rates ruling at the balance sheet date. It is the Bank's policy to revalue its monetary assets and liabilities denominated in foreign currencies daily. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(d) Gold bullion and precious metals

Gold bullion is recorded in the balance sheet at its fair value and revaluation is performed monthly. The fair value is determined by taking into consideration the market value of gold. Translation gain or loss is recognised in the profit or loss.

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

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand, denominated in local currency and foreign currencies.

(f) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Derivatives recorded at fair value through profit or loss

Derivatives include gold option contracts, forward foreign exchange contracts and options on foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'net trading income'.

Derivatives embedded in other financial instruments, such as the embedded derivatives in the convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value being reported through profit or loss.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments - initial recognition and subsequent measurement

(iv) *Financial assets or financial liabilities held for trading*

Financial assets or financial liabilities held-for-trading, comprising financial instruments held for trading other than derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense are recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

(v) *Financial assets or financial liabilities designated at fair value through profit or loss*

Financial assets and financial liabilities classified in this category are designated at initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising the gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instruments contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit and loss'. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments - initial recognition and subsequent measurement

(vi) *'Day 1' profit*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the differences between the transaction price and fair value (a 'Day 1' profit) in the income statement in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

(vii) *Held-to-maturity financial investments*

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment losses on financial investments'.

(viii) *Due from banks and loans and advances*

'Due from banks' and 'Loans and advances' are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investment-available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the effective interest rate. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment are recognised in the income statement in 'allowances for impairment loss'.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments - initial recognition and subsequent measurement

(ix) *Available-for-sale financial investments*

Available-for-sale financial investments are those designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains or losses are recognised directly in equity in the 'Available-for-sale Reserve'. When security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income' or 'Other operating expenses'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments' and removed from the Available-for-sale Reserve.

(x) *Central bank bills and liabilities due to foreign parties*

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under 'central bank bills and liabilities due to foreign parties', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, central bank bills and liabilities due to foreign parties 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 the issue and costs that are an integral part of the effective interest rate.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Derecognition of financial assets and financial liabilities

(i) *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred not retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the financial liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(h) Determination of fair value

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

(i) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) *Due from banks and loans and advances*

For amounts due from banks and loans and advances carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(i) Impairment of financial assets (Cont'd.)

(i) *Due from banks and loans and advances (Cont'd.)*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected impairment loss that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'allowances for impairment loss'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience with credit risk characteristic to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(i) Impairment of financial assets (Cont'd.)

(ii) *Held-to-maturity financial investments*

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced, and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

(iii) *Available-for-sale financial investments*

For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(i) Impairment of financial assets (Cont'd.)

(iv) *Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(j) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

(k) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to initial recognition, buildings are stated at revalued amount, which is the fair value at the date of the revaluation less accumulated depreciation and any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed on a regular basis to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation surplus is credited to the revaluation reserve included in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Property, plant and equipment (Cont'd.)

Subsequent to initial recognition, other property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction are not depreciated. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Buildings	25 - 60 years
Furniture and office equipment	8 - 10 years
Computers	5 - 8 years
Motor vehicles	6 - 8 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and unutilised portion of the revalued surplus on that item is taken directly to retained earnings.

(l) Income tax

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

(m) Impairment of non-financial assets

The Bank assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair values less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(m) Impairment of non-financial assets (Cont'd)

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(n) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet as a 'repurchase agreements', reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Where the transferee has the right to sell or pledge the asset, the asset is recorded on the balance sheet as 'Financial assets held for trading pledged as collateral'.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognised on the balance sheet. The corresponding cash paid, including accrued interest, is recognised on the balance sheet as a 'reverse repurchase agreements'. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(o) Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, mainly consisting of letter of credits and guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Allowances for impairment loss'. The premium received is recognised in the income statement in 'Other operating income' on a straight-line basis over the life of the guarantee.

(p) Employee benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank.

(ii) Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, Social and Health Fund. Such contributions are recognised as an expense in profit or loss as incurred.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.3 CHANGE IN ACCOUNTING POLICIES

The Bank has adopted the following new and amended IFRS and IFRIC interpretations during the year.

- * IFRS 7 - Financial Instruments: Disclosures
- * IAS 1 - Amendment - Capital Disclosure
- * IFRIC 7 - Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- * IFRIC 8 - Scope of IFRS 2
- * IFRIC 9 - Reassessment of Embedded Derivatives.
- * IFRIC 10 - Interim Financial Reporting and Impairment

The adoption of the above new and amended standards and interpretations did not result in significant changes to accounting policies and did not have any effect on the financial performance or position of the Bank. However, IFRS 7 - Financial Instruments: Disclosure did give rise to additional disclosures.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- * IFRS 3 (Revised) - Business Combinations
- * IFRS 8 - Operating Segments
- * IAS 1 (Revised) - Presentation of Financial Statements
- * IAS 23 (Revised) - Borrowing Costs
- * IAS 27 (Revised) - Consolidated and Separate Financial Statements
- * Amendment to IFRS 2 - Share-based Payments - Vesting Conditions and Cancellations
- * Amendments to IAS 32 - Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements - Puttable Financial Instruments
- * IFRIC 11- IFRS 2 - Group and Treasury Share Transactions
- * IFRIC 12- Service Concession Arrangements
- * IFRIC 13- Customer Loyalty Programmes
- * IFRIC 14- IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The directors anticipate that the adoption of these new and amended Standards and Interpretations in the future period will have no material impact on the financial statements of the Bank.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Allowances for impairment for loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

3. INTEREST INCOME

	2007 MNT 'million	2006 MNT 'million
Financial investments - available-for-sale	6,485	322
Reverse repurchase agreements	9,361	2,522
Due from foreign financial institutions	31,995	14,876
Loans to local banks and Ministry of Finance	573	1,059
	48,414	18,779

4. INTEREST EXPENSES

	2007 MNT 'million	2006 MNT 'million
Central bank bills	7,900	4,359
Liabilities due to foreign parties	565	217
Deposits from government agencies	7,990	2,948
Deposits from local banks	2,057	548
Repurchase agreement	383	-
	18,895	8,072

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

5. NET GAIN FROM TRADING OF GOLD AND PRECIOUS METAL

	2007 MNT 'million	2006 MNT 'million
Gain on gold trading	726	3,021
Unrealised loss on revaluation of precious metals	-	(505)
Unrealised gain/(loss) on revaluation of gold	27,757	(87)
Realised gain on revaluation of gold	1,485	-
Realised foreign exchange gain on precious metal refining	-	54
Net gain of other precious metals trading	8	217
Transportation and refining cost	(145)	(391)
	29,831	2,309

6. FOREIGN CURRENCY GAIN/(LOSS), NET

	2007 MNT 'million	2006 MNT 'million
Realised gain on foreign currency trading, net	7,761	1,004
Unrealised gain/(loss) on revaluation of foreign currency	19,198	(8,491)
	26,959	(7,487)

7. ALLOWANCES FOR IMPAIRMENT LOSS

	2007 MNT 'million	2006 MNT 'million
Other assets (Note 19)	39,329	-
Others	122	-
	39,451	-

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

8. ADMINISTRATIVE EXPENSES

	2007 MNT 'million	2006 MNT 'million
Advertising expense	45	443
Depreciation of property, plant and equipment (Note 18)	857	877
Staff cost (Note 9)	1,469	1,280
Legal and professional fees	550	-
Property, plant and equipment written-off	17	17
Operating expenses of foreign representative office	92	87
Security expenses	252	197
Telecommunication	540	451
Transportation and business trip	286	234
Training expenses	86	88
Utilities	229	235
Membership and professional fee	150	141
Other administrative expenses	317	617
	<u>4,890</u>	<u>4,667</u>

9. STAFF COST

	2007 MNT 'million	2006 MNT 'million
Wages and salaries	1,145	999
Contributions to Social and Health Fund	324	281
	<u>1,469</u>	<u>1,280</u>

10. OTHER OPERATING EXPENSES

	2007 MNT 'million	2006 MNT 'million
Cost of bank notes	6,590	5,080
Gold storage charges	442	15
Provision for claims under documentary	27,889	-
ABD loan MON 1510 - contract obligation expenses	1,439	-
Other operating expenses	359	104
	<u>36,719</u>	<u>5,199</u>

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

11. GOLD BULLION AND PRECIOUS METALS

	2007 MNT 'million	2006 MNT 'million
At valuation		
Gold bullion	232,665	156,851
Silver bullion	-	120
At cost		
Gold and silver ore	129,900	8,051
Coins and cultural valuables	2,730	2,848
	365,295	167,870

12. DUE FROM FOREIGN FINANCIAL INSTITUTIONS

	2007 MNT 'million	2006 MNT 'million
Short term time deposits	698,335	502,227
Holdings of Special Drawing Rights	90,764	89,612
Placements repayable on demand	41,225	20,032
World Bank subscription	865	985
Other subscriptions	3	3
	831,192	612,859

Short term time deposits

This represents short term time deposits with foreign central banks and other financial institutions which are denominated in USD, Euro and JPY with maturity periods of up to 60 days (2006: 42 days).

Holdings of Special Drawing Rights

This balance represents the Bank's holdings of Special Drawing Rights in relation to its subscription to the International Monetary Fund. This amount is matched by a corresponding liability (see Note 21) and is non-interest bearing.

Placements repayable on demand

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

World Bank subscription

This represents the deposits and quota at the World Bank as part of the condition to be a member of the World Bank group. This amount is matched by a corresponding liability (see Note 21) and is non-interest bearing.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

13. DERIVATIVE FINANCIAL INSTRUMENTS

The information below shows the fair value of derivative financial instruments together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets. This is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2007		2006	
	Notional Amounts		Notional Amounts	
	MNT '000	MNT '000	MNT '000	MNT '000
Assets				
Derivatives held for trading				
- gold option contracts	-	-	11,195	140,024
Derivatives held for trading				
- gold option contracts	-	-	11,195	140,024
- currency swap	-	-	77	15,290
	-	-	11,272	155,314

14. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	2007	2006
	MNT 'million	MNT 'million
Quoted investments		
Foreign bonds, at fair value	112,953	23,276
Unquoted investments		
Mongolian government bond, at fair value	-	33,696
Equities, at cost	2,795	3,729
	115,748	60,701

Unquoted equities represent investment in Mongolian Mortgage Corporation, International Investment Bank and International Bank of Economic Co-operation. The investments are recorded at cost due to the absence of quoted market price and the fair value cannot be reliably measured using valuation techniques. There is no market for these investments and the Bank intends to hold it on a long term basis.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

15. REVERSE REPURCHASE AGREEMENTS

	2007 MNT 'million	2006 MNT 'million
Reverse repurchase agreements	64,582	115,967

The Bank had purchased certain investments under agreements to resell these investments at a certain date in the future at a fixed price.

16. LOANS TO LOCAL BANKS

	2007 MNT 'million	2006 MNT 'million
Loans in foreign currency	14,531	10,533
Loans in local currency	4,761	7,659
Claims on a local bank	-	3,249
Refinancing loan	130	130
Gross loans and advances	19,422	21,571
Less: Allowances for impairment losses	(130)	(3,198)
	19,292	18,373

(i) Loans in foreign currency

The loans in foreign currency were disbursed to three local banks, for the onward transmission to Mongolian enterprises. The funding was made available under two separate programmes by the Government of German to promote small and medium scale companies (see Note 21). The loans under both programmes bear interest at the rate ranging from 1.25% to 1.75% (2006: 1.25%) per annum and are not backed by any securities. The loans under both programmes are disbursed in various disbursements to the three local banks according to the needs of the borrowers of the relevant local banks. Accordingly, the repayment terms for each disbursed loan vary according to the date of disbursement.

(ii) Loans in local currency

The loans in local currency were disbursed to various local banks in Mongolia, for the onward transmission to Mongolian enterprises. The funding was made available under two separate programmes by the Asian Development Bank to create more job opportunities for the people of Mongolia and to develop the agricultural sector in the country. The loans under the first programme bears interest at the rate of 10% (2006: 10%) per annum and the repayment terms for each disbursed loan varies according to the date of disbursement. The loans under the second programme bears interest at the rate of 5.5% (2006: 5.5%) per annum with the maturity of up to one year for each loan disbursed.

(iii) Claims on a local bank

These claims are in relation to payments made by the Bank to settle deposits and guarantees issued in favour of a local bank which has since been ruled insolvent. The loan had been fully impaired in prior year and written off during the year.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

16. LOANS TO LOCAL BANKS (CONT'D.)

Impairment allowance for loans to local banks

A reconciliation of the allowance for impairment losses for loans to local banks are as follows:

	2007 MNT 'million	2006 MNT 'million
At 1 January	3,198	3,198
Charge for the year	-	-
Amounts written off	(3,068)	-
At 31 December	130	3,198
Individual impairment	130	3,198
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	130	3,198

There is no collateral that the Bank holds related to loans individually determined to be impaired at 31 December 2007.

17. LOAN TO MINISTRY OF FINANCE

	2007 MNT 'million	2006 MNT 'million
Poverty Reduction and Growth Facility Loan	29,604	35,822

The Poverty Reduction and Growth Facility loan refers to the Ministry of Finance portion of the total PRGF loan outstanding as at year end, as referred to in Note 21. The loans have a maturity period of 10 years and carry an annual interest at 0.5% (2006: 0.5%).

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007****18. PROPERTY, PLANT AND EQUIPMENT**

	Buildings	Furniture and Other Equipments	Computers	Motor Vehicles	Building in Progress	Total
	MNT 'million	MNT 'million	MNT 'million	MNT 'million	MNT 'million	MNT 'million
At 31 December 2007						
At cost/valuation						
At 1 January 2007	16,846	1,638	2,523	776	-	21,783
Additions	29	291	140	128	114	702
Disposals	-	(3)	(7)	(52)	(1)	(63)
Transfers	-	104	-	-	(104)	-
Write-offs	-	(15)	(79)	-	(9)	(103)
At 31 December 2007	16,875	2,015	2,577	852	-	22,319
Representing:						
At cost	6,495	2,015	2,577	852	-	11,939
At valuation	10,380	-	-	-	-	10,380
	16,875	2,015	2,577	852	-	22,319
Accumulated depreciation						
At 1 January 2007	1,722	597	800	388	-	3,507
Depreciation charge for the year (Note 8)	275	175	283	124	-	857
Disposals	-	(3)	(6)	(43)	-	(52)
Write-offs	-	(11)	(75)	-	-	(86)
At 31 December 2007	1,997	758	1,002	469	-	4,226
Net carrying amount						
At cost	6,041	1,257	1,575	383	-	9,256
At valuation	8,837	-	-	-	-	8,837
	14,878	1,257	1,575	383	-	18,093

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

18. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Buildings	Furniture and Other Equipments	Computers	Motor Vehicles	Total
	MNT 'million	MNT 'million	MNT 'million	MNT 'million	MNT 'million
At 31 December 2006					
At cost/valuation	16,846	1,640	1,007	842	20,335
At 1 January 2006	-	22	1,592	-	1,614
Additions	-	(2)	(24)	(39)	(65)
Disposals	-	(22)	(52)	(27)	(101)
Write-offs	-	-	-	-	-
At 31 December 2006	16,846	1,638	2,523	776	21,783
Representing:					
At cost	6,466	1,638	2,523	776	11,403
At valuation	10,380	-	-	-	10,380
Accumulated depreciation	16,846	1,638	2,523	776	21,783
At 1 January 2006	1,423	446	570	333	2,772
Depreciation charge for the year (Note 8)	299	171	286	121	877
Disposals	-	(1)	(18)	(39)	(58)
Write-offs	-	(19)	(38)	(27)	(84)
At 31 December 2006	1,722	597	800	388	3,507
Net carrying amount					
At cost	6,117	1,041	1,723	388	9,269
At valuation	9,007	-	-	-	9,007
	15,124	1,041	1,723	388	18,276

(a) Details of the latest valuation of buildings stated at revalued amounts are as follows:

Date of valuation	Valuer	Description of Property	Basis of Valuation
'27 May 2002	Asset Valuation Centre LLC	Buildings	Open market value

Had the revalued buildings been carried at historical cost, the net book value of the buildings that would have been included in the financial statements of the Bank as at 31 December 2007 would have been MNT574 million (2006: MNT585 million).

(b) Buildings with net book value MNT1,757 million (2006 : MNT1,788 million) has been pledged as securities for borrowings as referred in Note 21.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

19. OTHER ASSETS

	2007 MNT 'million	2006 MNT 'million
Claims on a foreign financial institution	12,826	13,102
Receivables from companies	26,503	6,191
Others	2,416	216
	41,745	19,509
Less: Allowance for impairment losses	(39,329)	(45)
	2,416	19,464

Included in the receivables from companies are amounts recoverable from gold producing companies that have not fulfilled their obligations under the gold option contracts entered into with the Bank which amounted to MNT22.96 billion (2006: MNT3.14 billion).

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

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

Impairment allowance for other assets

A reconciliation of the allowance for impairment losses for other assets are as follows:

	2007 MNT 'million	2006 MNT 'million
At 1 January	45	45
Charge for the year (Note 7)	39,329	-
Amount written off	(45)	-
At 31 December	39,329	45
Individual impairment	39,329	45
Gross amount of other assets, individually determined to be impaired, before deducting any individually assessed impairment allowance	39,329	45

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

20. CENTRAL BANK BILLS

	2007 MNT 'million	2006 MNT 'million
Bills payables	103,425	70,845

This represents Bank of Mongolia bills issued by the Bank to local banks. Such bills have maturities between 7 days to 28 weeks (2006: 7 days to 6 months).

21. LIABILITIES DUE TO FOREIGN PARTIES

	2007 MNT 'million	2006 MNT 'million
Secured		
Loan from HSBC, London	1,216	1,577
Unsecured		
International Monetary Fund ("IMF")		
- Loans received under RGF	29,604	35,822
- Allocation of Special Drawing Rights	90,501	89,371
Loans received from the Government of Germany	14,258	12,951
Loans from Asian Development Bank ("ADB")	12,434	9,005
Subscription to World Bank and IDA	1,338	1,756
Aid received from United Nations Development Programme	151	151
	148,286	149,056
	149,502	150,633

Loan from HSBC, London

This represents a 10 year term loan from HSBC, London for the purpose of funding the acquisition of a property. The repayment of loan principal had commenced in 2005 and bears interest at 1.75% above HSBC's base rate per annum. The loan is secured by a building as referred in Note 18.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

21. LIABILITIES DUE TO FOREIGN PARTIES (CONT'D.)

International Monetary Fund ("IMF") (Cont'd.)

(i) *Loans received under Poverty Reduction and Growth Facility ("PRGF")*

Loans received under the PRGF (formerly known as Enhanced Structural Adjustment Facility) are loans granted by the IMF with a maturity period of 10 years and bear interest at 0.5% (2006: 0.5%) per annum. These loans are disbursed under a three-year arrangement, subject to observance of performance criteria and completion of programme reviews. The loans and repayments are denominated in SDR.

(ii) *Allocation of Special Drawing Rights ("SDR")*

IMF member countries are allocated SDR in proportion to their subscriptions to the IMF. The allocation represents the holdings of currency by IMF, against which assets are received in SDR from IMF. The total currency holdings by IMF as at year end amounted to SDR50.967 million (2006: SDR50.967 million), equivalent to MNT90,501 million (2006: MNT89,371 million).

Loans received from the Government of Germany

Loans received from the Government of Germany under the credit programme for small and medium enterprise are made available under two separate programmes. The loans under both programmes are denominated in Euro with a tenure of 40 years. The loan under the first programme started in 1995 and bears interest at 0.75% (2006: 0.75%) per annum. The repayment of loan principal had commenced in 2005. The loan under the second programme started in 2002 and bears interest at 0.75% (2006: 0.75%) per annum. The repayment of the loan principal will commence in 2012.

Loans from Asian Development Bank ("ADB")

The loans from ADB are mainly for purposes of alleviating poverty in Mongolia by way of improvement of the agricultural sector, to develop and promote private enterprises, to provide training and consultancy to the Government, non-governmental organizations and local banks. The loans bear interest ranging from 1% to 1.5% (2006: 1% to 1.5%) per annum and have tenures ranging from 30 to 40 years.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

21. LIABILITIES DUE TO FOREIGN PARTIES (CONT'D.)

Subscription to World Bank and International Development Agency (“IDA”)

The balance represents the Bank's subscription obligations to World Bank and IDA.

Aid received from United Nations Development Programme

This represents aid received from the United Nations Development Programme to promote the activities of non banking financial institutions in Mongolia. The funds are to be channelled via micro lending to the lower income earners.

22. DEPOSITS FROM GOVERNMENT AGENCIES

	2007 MNT 'million	2006 MNT 'million
State budget and other government accounts	309	1,572
Ministry of Finance accounts	603,023	403,557
	603,332	405,129

State budget and other government accounts

This relates to the local currency deposit accounts of government agencies maintained with the Bank. These deposits are repayable on demand and are non-interest bearing.

Ministry of Finance accounts (“MOF”)

This relates to various deposits accounts that MOF maintained with the Bank. These deposits are repayable on demand and are non-interest bearing except for deposits in the form of time deposit amounting to MNT Nil (2006: MNT81,550 million), which bears annual interest of Nil (2006: 5.14%) with maturity period up to Nil (2006: 79 days) and saving deposit amounting to MNT257,121 million (2006: MNT68,128) million, which bears interest of 0.5% and is repayable on demand.

23. DEPOSITS FROM LOCAL BANKS

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

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

24. OTHER LIABILITIES

	2007 MNT 'million	2006 MNT 'million
Social development fund	2,750	1,260
Provision for claims under documentary letter of credit issued	27,889	-
Other payables	7,707	15,423
	<u>38,346</u>	<u>16,683</u>

25. CHARTER FUND

	2007 MNT 'million	2006 MNT 'million
Charter Fund	5,000	5,000

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

26. GENERAL RESERVE

	2007 MNT 'million	2006 MNT 'million
At 1 January	11,145	11,145
Transfer from retained earnings	4,559	-
At 31 December	<u>15,704</u>	<u>11,145</u>

In accordance with the Law on Central Bank (Bank of Mongolia), at least 40% of the Bank's net income is allocated to its General Reserve Fund with the balance transferred to the State Budget account. However, after deducting unrealised gain on foreign exchange and gold bullion, the Bank does not have any distributable profit for the year ended 31 December 2007 to be transferred to the General Reserve Fund and State Budget account.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

27. OTHER RESERVES

	Available-for-sale Reserve MNT 'million	Revaluation Surplus on Prop- erty, Plant and Equipment MNT 'million	Foreign Currency Translation Reserve MNT 'million	Total MNT 'million
At 1 January 2007	-	3,019	9,391	12,410
Net gain on available-for-sale financial investments	1,469	-	-	1,469
At 31 December 2007	1,469	3,019	9,391	13,879
At 1 January 2006	67	3,019	18,231	21,317
Net loss on available-for-sale financial investments	(67)	-	-	(67)
Transfer of unrealised foreign exchange losses	-	-	(8,840)	(8,840)
At 31 December 2006	-	3,019	9,391	12,410

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

27. OTHER RESERVES (CONT'D)

(i) Available-for-sale Reserve

This reserve comprises changes in fair value of financial investments - available-for-sale.

(ii) Revaluation Surplus on Property, Plant and Equipment

Revaluation surplus arised from revaluation of the Bank's buildings carried out by Governor's decree in year 2002.

(iii) Foreign Currency Translation Reserve

This reserve is used to record unrealised gain or losses on revaluation of foreign reserve.

28. RELATED PARTY DISCLOSURE

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

	2007 MNT 'million	2006 MNT 'million
Remuneration paid to key management personnel		
Short-term employment benefits	84	55
Post-employment benefits		
- Contributions to Social and Health Fund	15	14
	99	69

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying values and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair value of non financial assets and non financial liabilities.

	Note	Carrying value		Fair value		Unrecognised gain/ (loss)		Carrying value		Fair value		Unrecognised gain/ (loss)	
		2007 MNT 'million	2007 MNT 'million	2007 MNT 'million	2007 MNT 'million	2007 MNT 'million	2007 MNT 'million	2006 MNT 'million	2006 MNT 'million	2006 MNT 'million	2006 MNT 'million		
Financial assets													
Cash in hand		23,197	23,197	-	20,792	-	0,792	-	-	-	-	-	-
Due from foreign financial institution	12	831,192	831,192	-	612,859	-	12,859	-	-	-	-	-	-
Үүсвэл санхүүгийн хэрэглүүрүүд	13	-	-	-	11,195	-	1,195	-	-	-	-	-	-
Derivative financial instruments													
Financial investments - available-for-sale													
- Quoted foreign bonds	14	112,953	112,953	-	23,276	-	23,276	-	-	-	-	-	-
- Unquoted government bonds	14	-	-	-	33,696	-	33,696	-	-	-	-	-	-
- Unquoted equities	14	2,795	*	*	3,729	*	*	*	*	*	*	*	*
Reverse repurchase agreements	15	64,582	64,582	-	115,967	-	115,967	-	-	-	-	-	-
Loans to local banks	16	19,292	16,783	(2,509)	18,373	(2,509)	7,461	(912)	-	-	-	-	-
Loan to Ministry of Finance	17	29,604	27,563	(2,041)	35,822	(2,041)	32,514	(3,308)	-	-	-	-	-
Other assets	19	-	-	-	19,258	-	19,258	-	-	-	-	-	-
Financial liabilities													
Derivative financial instruments	13	-	-	-	11,272	-	11,272	-	-	-	-	-	-
Central bank bills	20	103,425	103,425	-	70,845	-	70,845	-	-	-	-	-	-
Liabilities due to foreign parties	21	149,502	138,418	11,084	150,633	11,084	139,848	10,785	-	-	-	-	-
Deposits from government agencies	22	603,332	603,332	-	405,129	-	405,129	-	-	-	-	-	-
Deposits from local banks	23	171,027	171,027	-	148,542	-	148,542	-	-	-	-	-	-
Total unrecognised change in unrealised fair value				6,534		6,534							6,565

* As disclosed in Note 14, the fair value of unquoted equities cannot be reliably measured using valuation techniques.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximate carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to deposits from government agencies and local banks.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term of maturity.

Derivative financial instruments

The fair value of forward foreign currency exchange contracts is calculated by reference to current forward foreign currency exchange rates for contract with similar maturity profiles.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 31.3 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations.

At 31 December 2007	Less than 12 months MNT 'million	More than 12 months MNT 'million	Total MNT 'million
Financial assets			
Cash in hand	23,197	-	23,197
Due from foreign financial institution	831,192	-	831,192
Financial investments - available-for-sale	11,771	103,977	115,748
Reverse repurchase agreements	64,582	-	64,582
Loans to local banks	8,445	10,847	19,292
Loan to Ministry of Finance	5,846	23,758	29,604
	945,033	138,582	1,083,615
Non financial assets			
Gold bullion and precious metals	365,295	-	365,295
Property, plant and equipment	-	18,093	18,093
Other assets	2,416	-	2,416
	367,711	18,093	385,804
Total	1,312,744	156,675	1,469,419
Financial liabilities			
Central bank bills	103,425	-	103,425
Liabilities due to foreign parties	98,737	50,765	149,502
Deposits from government agencies	603,332	-	603,332
Deposits from local banks	171,027	-	171,027
	976,521	50,765	1,027,286
Non financial liabilities			
Cash in circulation	364,074	-	364,074
Other liabilities	38,346	-	38,346
	402,420	-	402,420
Total	1,378,941	50,765	1,429,706
Net	(66,197)	105,910	39,713

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D.)

At 31 December 2006	Less than 12 months MNT 'million	More than 12 months MNT 'million	Total MNT 'million
Financial assets			
Cash in hand	20,792	-	20,792
Due from foreign financial institution	612,859	-	612,859
Derivative financial instruments	11,195	-	11,195
Financial investments - available-for-sale	56,972	3,729	60,701
Reverse repurchase agreements	115,967	-	115,967
Loans to local banks	10,698	7,675	18,373
Loan to Ministry of Finance	7,536	28,286	35,822
Other assets	19,258	-	19,258
	855,277	39,690	894,967
Non financial assets			
Gold bullion and precious metals	167,870	-	167,870
Property, plant and equipment	-	18,276	18,276
Other assets	206	-	206
	168,076	18,276	186,352
Total	1,023,353	57,966	1,081,319
Financial liabilities			
Derivative financial instruments	11,272	-	11,272
Central bank bills	70,845	-	70,845
Liabilities due to foreign parties	94,817	55,816	150,633
Deposits from government agencies	405,129	-	405,129
Deposits from local banks	148,542	-	148,542
	730,605	55,816	786,421
Non financial liabilities			
Cash in circulation	245,099	-	245,099
Other liabilities	16,683	-	16,683
	261,782	-	261,782
Total	992,387	55,816	1,048,203
Net	30,966	2,150	33,116

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT

31.1 INTRODUCTION

Risk is inherent in the Bank's activity, however it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's management to pursue its monetary policy and ensure the containing inflation, financial stability and business continuity of Mongolian banking operations. From the financial point of view, the Bank is exposed to credit risk, liquidity risk and market risk. In addition, it is also subjected to operational, reputation and legal risks.

Currently, the Bank has a decentralized risk management process. Each department is responsible for the independent control of risks, including monitoring the risk of exposures against their activities, and the assessment of risks of new product.

Those risks which are unique to the Bank as the central bank in Mongolia are monitored through the Bank's strategic planning process. In addition, the Bank actively explores the possibility of setting up Risk Committee which would have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is supposed to be responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has been established outside of the Bank's internal organization in order to maintain external supervisory role and has the responsibility to monitor the overall risk process within the Bank.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.1 INTRODUCTION (CONT'D)

Internal Audit

The Bank's internal audit mission is to examine and evaluate the adequacy and effectiveness of risk management system in its activities toward the accomplishment of the Bank's objectives, and fulfilment of policies and plans. Internal Audit Department ("IAD") charter determines its duties as to examine the effectiveness of all levels of risk management in planning, organization, coordination and controlling the implementation of the policies and procedures adopted by the Bank, examining the compliance of operations and systems with laws, regulations; oversee the reliability, integrity, and security of financial and operational information.

IAD carries out risk assessment in general and specific operations level. General risk assessment is undertaken during the development of long-range and annual audit plans to ensure proper allocation of audit resources according to the degree of risk, while assessment focuses on particular issues at the specific level. Presently, IAD of the Bank carried out activities in accordance with long term audit program for 2007-2011 and annual audit plan for 2007. Priorities for audits are determined by applying some criteria which reflect potential and real degree of risk at which each area of operation is exposed. For these purposes certain criteria are developed and appropriate weights are assigned to each type of criteria in relation to the activities audited. The weighted scores are totaled for each operational area and the degree of risk is classified as high, medium and low accordingly.

The evaluation of internal control system is also a very important aspect of internal audit work. Internal control is defined as consisting of all the means developed to reach objectives in effectiveness, economy and efficiency of the Bank operations; reliability of financial reporting system and compliance of all activities with applicable laws and regulations. The evaluation is aimed at ascertaining the existence of adequate procedures and competent performance. IAD reports about findings and its recommendations administratively to the Governor, and functionally to the Supervisory Board. After each assessment, IAD discusses the results with management of the Bank, as well as it takes follow-up reviews on the actions taken by management.

Risk Management Unit

The Risk Management Unit ("RMU") is responsible for implementing and maintaining foreign exchange reserve management risk related procedures to ensure an independent control process. RMU is responsible for monitoring compliance with strategic benchmark for foreign exchange reserve management, risk principles, policies and limits, when managing foreign exchange reserves of the Bank. In addition, RMU also ensures the complete capture of risk measures related to the foreign exchange reserves and reporting system.

According to the State Foreign Exchange Reserve Management Regulation, the objectives of reserve management are subordinated to the Bank's monetary and foreign exchange policies.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.1 INTRODUCTION (CONT'D)

Risk Management Unit (Cont'd)

The main objectives in holding foreign reserves are to:

- Support monetary policy
- Control excessive volatility of the foreign exchange market
- Guarantee payment of government foreign exchange debt
- Use as a liquidity buffer in the event of national disaster or emergency

Risk management of foreign reserves contributes to these objectives by strategically managing and controlling the exposure to financial and operational risks. Every year, the Bank determines strategy for asset selection and allocation to control exposures to external risks. This involves establishing parameters for (1) the currency holding and composition necessary to maintain the ready availability of convertible currencies (2) the permissible range of investment instruments that meet liquidity and security requirements, (3) duration requirements for limiting exposure to interest rate risk.

31.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. For the domestic monetary policy operations, the Bank actively uses collateral to reduce its credit risks. According to the Regulation on Central Bank Refinancing, the main types of collateral are as follows:

1. Central Bank bills
2. Short-term government securities
3. Government securities issued by the OECD members and accepted by the Bank
4. Liquid securities of AAA rating and owned by recognized foreign financial institutions
5. Promissory notes accepted by the Bank
6. Time deposits at the Bank and foreign banks

The eligible borrowing banks had to meet all prudential ratios set by the Bank. If the borrowing local bank breaches one of the prudential ratios, the Bank terminates the refinancing operation in order to limit total exposure to the borrowing bank.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.2 CREDIT RISK (CONT'D)

In order to minimize credit risk, foreign exchange reserves are invested in securities issued by the AAA-rated Governments and supranational institutions. The credit risk on foreign currency deposits and money market instruments is limited by transacting with counterparties rated "AA-" or above by internationally recognized rating agencies. The minimum rating is taken when a counterparty has ratings from more than one rating agency.

In addition, all counterparties have credit limits, which are set taking into consideration their ratings, capital, and other factors. The credit limits are set quarterly and compliance with the limit is monitored daily.

Credit-related Commitments Risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.2 CREDIT RISK (CONT'D)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Note	Gross maximum exposure 2007 MNT 'million	Gross maximum exposure 2006 MNT 'million
Due from foreign financial institutions	12	831,192	612,859
Derivative financial instruments	13	-	11,195
Financial investments - available-for-sale	14	115,748	60,701
Reverse repurchase agreements	15	64,582	115,967
Loans to local banks	16	19,292	18,373
Loan to Ministry of Finance	17	29,604	35,822
Other assets	19	-	19,258
Total		1,060,418	874,175
Contingent liabilities	32	-	24,906
Total credit risk exposure		1,060,418	899,081

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.2 CREDIT RISK (CONT'D)

Risk concentrations of the maximum exposure to credit risk

A geographical analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2007 MNT 'million	Gross maximum exposure 2006 MNT 'million
Mongolia	49,726	109,839
Australia	99,447	11,650
Austria	-	17,475
Belgium	49,157	-
France	56,779	15,290
Germany	43,983	596
Hong Kong	35,099	23,300
Japan	38,115	60,162
Luxembourg	31,022	-
New Zealand	295	16,014
Russia	22,774	38,008
Singapore	247,397	160,915
Switzerland	67,560	69,334
United Kingdom	124,565	83,097
United States	194,499	293,401
	1,060,418	899,081

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.2 CREDIT RISK (CONT'D)

Credit quality per class of financial assets

	Note	Neither past due nor impaired		Past due or individually impaired		Total
		High grade MNT 'million	Standard grade MNT 'million	MNT 'million	MNT 'million	
At 31 December 2007						
Due from foreign financial institutions	12	831,192	-	-	-	831,192
Financial investments - available-for-sale	14	115,748	-	-	-	115,748
Reverse repurchase agreements	15	64,582	-	-	-	64,582
Loans to local banks	16	-	19,292	130	-	19,422
Loan to Ministry of Finance	17	29,604	-	-	-	29,604
Other assets	19	-	-	39,329	-	39,329
Total		1,041,126	19,292	39,459	-	1,099,877
At 31 December 2006						
Due from foreign financial institutions	12	612,859	-	-	-	612,859
Derivative financial instruments	13	-	11,195	-	-	11,195
Financial investments - available-for-sale	14	60,701	-	-	-	60,701
Reverse repurchase agreements	15	115,967	-	-	-	115,967
Loans to local banks	16	-	21,571	-	-	21,571
Loan to Ministry of Finance	17	35,822	-	-	-	35,822
Other assets	19	-	-	19,293	-	19,293
Total		825,349	32,766	19,293	-	877,408

All the past due loans are considered to be impaired and disclosed in Note 16 and Note 19.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.2 CREDIT RISK (CONT'D)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The bank address impairment assessment in individually assessed allowances as follows:

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of the other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

31.3 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk of foreign currency is the main area of risk faced by the Bank.

With respect to the classical investment triad (safety–liquidity–return), the investment policy of the Bank is maximizing returns ought to be considered only if all the liquidity and safety requirements are met.

In circumstances of high import dependence, constant supply requirement of Government external debt services, volatility of demand and supply of foreign exchange in domestic market, liquidity is the most important concern of foreign exchange reserve management.

In order to manage liquidity risk, the Bank divided foreign reserve portfolio into two sub-portfolios:

- (i) The Short-Term Investment Portfolio (including the cash management or liquidity portfolio) This portfolio is used for purposes of debt servicing and smooth functioning of the foreign exchange market. It consists of cash, overnights and demand deposits. It is also invested in time deposits, highly liquid money market instruments (commercial papers) and securities ranging a week to twelve month maturity and commodities (monetary gold).
- (ii) The Long-Term Investment Portfolio. Invested in medium to long-term high liquid instruments, including government bonds and securities.

Investment Committee proposes the limits for foreign exchange portfolio.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.3 LIQUIDITY RISK (CONT'D.)

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. See Note 30 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial Liabilities	On Demand сая төгрөг	3 to 6 months сая төгрөг	6 to 12 months сая төгрөг	1-5 years сая төгрөг	Over 5 years сая төгрөг	Total undiscounted financial liabilities сая төгрөг
At 31 December 2007						
Central bank bills	98,200	6,300	-	-	-	104,500
Liabilities due to foreign parties	93,078	8,752	3,734	25,876	29,333	160,773
Deposits from government agencies	603,332	-	-	-	-	603,332
Deposits from local banks	171,027	-	-	-	-	171,027
Total	965,637	15,052	3,734	25,876	29,333	1,039,632
2006 оны 12 сарын 31						
At 31 December 2006	70,000	1,130	-	-	-	71,130
Central bank bills	92,320	3,541	4,551	27,524	27,099	155,035
Liabilities due to foreign parties	405,129	-	-	-	-	405,129
Deposits from government agencies	148,542	-	-	-	-	148,542
Deposits from local banks	-	3,431	7,841	-	-	11,272
Total	715,991	8,102	12,392	27,524	27,099	791,108

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.3 LIQUIDITY RISK (CONT'D.)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities.

	On Demand MNT 'mil- lion	Less than 3 months MNT 'million	3-12 months MNT 'mil- lion	Total MNT 'mil- lion
Contingent liabilities				
At 31 December 2007	-	-	-	-
At 31 December 2006	-	-	24,906	24,906

31.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates. The Bank manages and monitors this risk element using sensitivity analyses. Except for the concentrations within foreign currencies, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Assets and liabilities of the Bank are predominantly fixed rate. In strategic benchmark development process the Bank sets duration requirements for foreign reserve portfolio in order to limit exposure to interest rate risk. The duration requirement should be met on daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's equity. The sensitivity of equity is calculated by revaluing fixed rate financial investments - available-for-sale as at year end assumed changes in interest rate.

Currency	Change in basis points	Sensitivity of net equity
At 31 December 2007		
USD	+25	(569)
USD	-75	1,706
At 31 December 2006		
USD	+25	(1)
USD	-50	2

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.4 MARKET RISK

Currency risk

Currency risk is the risk that the value of a financial investment will fluctuate due to changes in foreign exchange rates. The Board set limits on position by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the MNT, with all other variables held constant on the income statement (due to the fair value of currency sensitive monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement while a positive amount reflects a net potential increase.

Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
	2007	2007 MNT 'million	2006	2006 MNT 'million
USD	+1.0	5,194	+3.5	15,479
USD	-4.6	(24,002)	-4.6	(20,224)
EUR	+11.8	22,949	+12.8	4,512
EUR	-12.0	(23,320)	-12.0	(4,237)
CHF	+8.1	32	+14.1	83
CHF	-12.9	(51)	-12.9	(75)
GBP	+8.9	(25)	+11.9	179
GBP	-9.4	26	-9.4	(140)
JPY	+5.3	2,300	+6.7	287
JPY	-11.0	(4,767)	-11.0	(472)
XAU	+31.2	72,567	+18.4	28,807
XAU	-1.0	(2,327)	-1.0	(1,569)

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

31. RISK MANAGEMENT (CONT'D)

31.4 MARKET RISK (CONT'D.)

Prepayment risk

The Bank do not have prepayment risk as the Bank do not grant loans and advances for commercial purposes.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage those risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education, on-going training and assessment processes, including the use of internal audit.

In order to manage operational risk of foreign reserves, all operational procedures should be well documented. Operational procedures of foreign reserves are regulated by the Guidelines to conduct Foreign Exchange Trading. The main purpose of these guideline is to define the requirements and the duties for the structural units and staffs that are involved in the reserve management as set in "The State Foreign Exchange Reserve Management Regulation" to differentiate duties, to assign certain functions to different personals, to enable parties to oversee one another and to tackle any operational and transactional risk. This Guideline used to initiate, carry out and control daily transactions.

32. CONTINGENT LIABILITIES

	2007 сая төгрөг	2006 сая төгрөг
Contingent Liabilities		
Letter of credit	-	24,906

Letters of credit, guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Subsequent to the year end, all the letter of credit have defaulted and fully provided as disclosed in Note 24.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007

33. COMPARATIVE FIGURES

The comparative figures have been audited by a firm of auditors other than Ernst & Young Mongolia Audit LLC. The following comparative figures have been reclassified in order to conform with the current year presentations:

Description of Change	Previously Stated MNT 'million	Increase/ (Decrease) MNT 'million	Restated MNT 'million
Investment in securities/Financial investment -			
available-for-sale	56,972	3,729	60,701
Deposit and placements with foreign financial institutions/Due from foreign			
financial institutions	616,588	(3,729)	612,859
Advances to companies	6,156	(6,156)	-
Other assets	24,503	(5,039)	19,464
Derivative financial instruments - assets	-	11,195	11,195
Other liabilities	27,955	(11,272)	16,683
Derivative financial instruments - liabilities	-	11,272	11,272

34. 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

	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP growth, %*	1.1	1.0	4.0	6.1	10.6	7.3	8.6	9.9
GDP, current prices, billions of togrog	1172.7	1283.1	1413.0	1160.4	2152.1	2779.6	3715.0	4557.5
Inflation, %	8.1	8.0	1.6	4.7	11.0	9.5	6.0	15.1
Monetary survey (billions of togrog)								
M2	258.8	331.3	470.1	703.3	847.0	1140.1	1536.5	2401.1
Net foreign assets	201.7	220.2	308.5	256.3	211.0	570.2	1131.8	1439.5
Net domestic credit	84.8	129.3	200.0	514.6	547.3	769.0	745.4	1329.5
M2/GDP (%)	22.1	25.8	33.3	60.6	39.4	41.0	41.4	52.7
Loans/GDP (%)	5.7	10.5	16.4	38.1	28.2	30.9	32.9	45.1
Deposits/GDP (%)	7.9	10.5	15.5	31.3	24.0	24.2	26.8	32.7
Banks' total loans	66.8	135.1	231.4	442.1	606.8	859.9	1223.3	2056.1
Non-performing loans	14.6	9.1	11.7	21.2	39.1	49.5	60.0	68.1
Banks' loan rate	30.3	31.8	26.6	25.5	24.0	21.6	20.0	17.1
Banks' deposit rate	13.8	13.2	14.0	14.0	13.2	12.6	13.5	13.4
CBBill's weighted average rate	8.6	8.6	9.9	11.5	15.8	4.8	6.4	9.9
Balance of payment (millions of USD)*								
Export f.o.b	535.8	523.2	523.9	627.3	872.1	1068.6	1545.2	1952.4
Import f.o.b	676.0	693.1	752.8	826.9	901.0	1097.4	1356.7	1963.7
Current account	-69.9	-61.7	-105.1	-98.7	63.4	84.2	306.3	75.8
Current account/GDP (%)	-6.0	-4.8	-7.4	-8.5	2.9	3.0	8.2	1.7
International reserves	190.9	206.7	268.2	203.4	207.8	333.2	718.0	1000.8
In weeks of imports	14.7	15.5	18.5	12.8	12.0	16.3	25.2	24.0
Togrog rate against U.S. dollar (yearly average)	1076.5	1097.7	1110.4	1146.5	1185.4	1205.3	1179.6	1170.4
General government budget (billions of togrog)*								
Total revenue and grant	351.0	439.3	477.0	553.9	713.1	837.9	1360.4	1851.2
Current revenue	346.2	430.0	469.7	545.2	706.3	832.6	1354.1	1843.7
Total expenditure and net lending	429.7	489.9	550.5	615.8	752.5	764.7	1237.0	1749.2
Current expenditure	314.1	366.8	415.3	434.8	538.7	600.3	982.3	1361.5
Overall balance	-78.7	-50.6	-73.4	-61.9	-39.4	73.2	123.4	102.0
Overall balance/GDP (%)	-6.7	-3.9	-5.2	-5.3	-1.8	2.6	3.3	2.2

*Preliminary

Money supply

(in millions of togrogs)

End-of period	Currency issued incirculation		Of which			Money (M1)		Of which
	amount	monthly changes %	Banks' vaults	Currency outside banks		amount	monthly changes %	Current account (Dom. Currency)
				amount	monthly changes %			
1991 12	2,003.0		308.7	1,694.3		7,313.7		5,592.1
1992 12	2,896.4		1,057.2	1,839.2		7,640.2		5,789.8
1993 12	10,786.1	13.2	2,035.5	8,750.6	12.0	18,548.4	-8.8	9,757.2
1994 12	21,804.8	3.1	3,037.6	18,767.2	5.7	32,871.2	-0.4	14,104.0
1995 12	29,755.7	0.8	4,164.5	25,591.2	2.6	42,636.5	-0.4	17,045.3
1996 12	46,095.8	11.8	4,391.4	41,704.4	14.4	64,301.6	14.7	22,597.2
1997 12	56,816.5	3.1	7,048.2	49,768.3	4.1	76,108.9	4.0	26,340.6
1998 12	61,754.2	5.7	5,308.4	56,445.8	9.2	82,582.0	9.4	26,136.2
1999 12	91,567.5	13.8	4,286.2	87,281.3	15.2	114,825.7	14.9	27,544.4
2000 12	107,394.4	7.8	6,461.0	100,933.4	7.3	130,775.0	8.9	29,841.6
2001 03	99,711.6	-2.4	6,000.6	93,711.0	-1.4	123,586.3	3.0	29,875.3
06	133,397.4	6.6	7,933.6	125,463.8	6.7	155,099.6	2.8	29,635.9
09	124,288.6	-1.2	7,980.1	116,308.5	-0.7	151,808.6	1.0	35,500.2
12	119,205.8	5.7	10,045.1	109,160.7	8.2	156,155.3	6.9	46,994.6
2002 03	110,822.1	1.1	9,538.3	101,283.8	4.0	146,932.2	4.2	45,648.4
06	145,888.0	4.5	14,093.3	131,794.6	4.0	187,708.4	5.3	55,913.8
09	144,851.7	-4.8	14,176.1	130,675.6	-6.6	181,084.7	-4.4	50,409.0
12	134,642.8	0.5	13,859.2	120,783.6	1.2	187,727.8	6.9	66,944.1
2003 03	131,235.3	8.5	16,228.6	115,006.7	8.2	180,109.6	1.8	65,102.9
06	160,481.3	5.0	19,423.2	141,058.1	4.3	208,987.9	4.0	67,929.8
09	166,532.4	-1.4	18,150.1	148,382.3	-1.4	214,417.5	-1.3	66,035.2
12	152,826.6	1.1	21,329.9	131,496.7	-2.1	212,833.4	4.4	81,336.7
2004 03	161,225.1	9.2	21,540.2	139,685.0	10.2	210,799.3	6.4	71,114.3
06	190,175.8	0.5	19,898.5	170,277.4	0.7	254,807.0	7.4	84,529.6
09	183,020.2	-5.7	20,062.4	162,957.8	-5.9	241,994.9	-4.7	79,037.1
12	168,521.1	1.7	25,008.4	143,512.7	3.9	221,327.6	4.1	77,814.9
2005 01	165,147.7	-2.0	28,797.4	136,350.3	-5.0	211,272.3	-4.5	74,922.0
02	148,831.3	-9.9	32,493.5	116,337.8	-14.7	197,122.8	-6.7	80,785.0
03	159,797.2	7.4	27,083.3	132,713.9	14.1	213,357.6	8.2	80,643.7
04	190,347.0	19.1	26,641.1	163,705.9	23.4	248,012.6	16.2	84,306.7
05	195,678.8	2.8	30,003.5	165,675.3	1.2	255,501.6	3.0	89,826.3
06	203,835.2	4.2	27,068.9	176,766.3	6.7	277,664.4	8.7	100,898.0
07	210,998.3	3.5	30,273.8	180,724.5	2.2	278,810.8	0.4	98,086.3
08	219,156.3	3.9	29,823.9	189,332.4	4.8	293,241.4	5.2	103,909.0
09	206,623.7	-5.7	32,209.1	174,414.6	-7.9	273,522.2	-6.7	99,107.6
10	200,176.3	-3.1	38,126.0	162,050.3	-7.1	262,138.2	-4.2	100,087.9
11	185,843.3	-7.2	32,843.9	152,999.4	-5.6	253,099.1	-3.4	100,099.7
12	191,688.3	3.1	39,318.8	152,369.5	-0.4	269,124.4	6.3	116,754.9
2006 01	199,125.3	3.9	45,037.9	154,087.5	1.1	267,579.6	-0.6	113,492.1
02	168,834.2	-15.2	38,967.2	129,867.0	-15.7	262,113.5	-2.0	132,246.5
03	186,511.1	10.5	41,702.2	144,808.9	11.5	274,375.7	4.7	129,566.8
04	216,110.6	15.9	41,787.2	174,323.4	20.4	292,829.0	6.7	118,505.6
05	238,878.4	10.5	43,753.0	195,125.4	11.9	326,227.3	11.4	131,102.0
06	241,313.2	1.0	43,134.4	198,178.9	1.6	328,612.9	0.7	130,434.0
07	245,250.9	1.6	52,676.7	192,574.2	-2.8	325,022.7	-1.1	132,448.5
08	252,895.2	3.1	48,598.8	204,296.5	6.1	343,056.9	5.5	138,760.5
09	239,477.2	-5.3	50,129.8	189,347.4	-7.3	331,262.5	-3.4	141,915.1
10	237,625.6	-0.8	56,966.8	180,658.8	-4.6	320,034.2	-3.4	139,375.3
11	233,232.3	-1.8	52,736.8	180,495.5	-0.1	325,026.4	1.6	144,530.8
12	245,098.9	5.1	59,972.2	185,126.7	2.6	331,903.4	2.1	146,776.7
2007 01	224,615.1	-8.4	50,378.6	174,236.5	-5.9	334,997.0	0.9	160,760.5
02	224,539.6	0.0	56,903.8	167,635.8	-3.8	342,596.8	2.3	174,961.0
03	264,875.0	18.0	48,718.8	216,156.2	28.9	401,498.6	17.2	185,342.4
04	312,432.3	18.0	60,738.8	251,693.5	16.4	455,119.2	13.4	203,425.7
05	322,894.9	3.3	55,507.1	267,387.9	6.2	490,293.1	7.7	222,905.2
06	319,860.0	-0.9	57,436.6	262,423.4	-1.9	502,223.4	2.4	239,800.0
07	325,062.4	1.6	58,327.2	266,735.2	1.6	497,043.9	-1.0	230,308.7
08	351,604.5	8.2	61,436.7	290,167.8	8.8	535,468.4	7.7	245,300.7
09	333,389.7	-5.2	66,068.5	267,321.2	-7.9	515,432.2	-3.7	248,111.1
10	323,094.0	-3.1	59,129.5	263,964.6	-1.3	523,434.3	1.6	259,469.8
11	323,651.7	0.2	61,902.4	261,749.3	-0.8	519,932.0	-0.7	258,182.7
12	364,074.4	12.5	80,749.1	283,325.3	8.2	590,471.6	13.6	307,146.3

Money supply

(in millions of togrogs)

End-of period	Banks' current account (Dom. currency)	Quasi money		Of which					Money (M2)	
		amount	monthly changes %	Domestic currency deposits	Of which		Foreign currency deposits	Current account (For. currency)	amount	monthly changes %
					Individuals	Corporate				
1991 12		2,601.1		1,996.9	1,553.3	443.6	604.2		9,914.8	
1992 12		5,412.1		4,430.2	2,985.7	1,444.5	112.5	869.4	13,052.3	
1993 12		24,215.8	10.6	10,103.1	7,969.6	2,133.5	2,378.0	11,734.7	42,764.2	1.2
1994 12		43,905.8	-2.6	28,937.5	25,287.3	3,650.2	3,474.1	11,494.2	76,777.0	-1.7
1995 12		59,408.1	-4.7	38,529.1	36,602.7	1,926.4	8,233.1	12,645.9	102,044.6	-2.9
1996 12		64,093.7	-4.0	35,164.2	33,819.1	1,345.1	11,006.8	17,922.7	128,395.3	4.5
1997 12		93,956.6	13.0	44,673.8	42,892.7	1,781.1	13,795.6	35,487.2	170,065.5	8.8
1998 12		84,667.6	-0.5	44,840.1	42,044.5	2,795.6	14,468.6	25,358.9	167,249.6	4.2
1999 12		105,341.3	-1.6	45,052.3	43,257.9	1,794.4	24,925.9	35,363.2	220,167.0	6.3
1999 12		128,067.7	2.1	59,004.3	54,125.9	4,878.4	33,681.9	35,381.5	258,842.6	5.4
2001 03		146,954.5	6.4	66,993.0	61,110.6	5,882.4	37,250.5	42,711.0	270,540.8	4.8
06		158,846.5	6.6	72,344.0	63,382.0	8,962.1	41,686.0	44,816.5	313,946.1	4.7
09		165,619.9	-3.0	81,629.0	70,893.8	10,735.3	45,741.5	38,249.4	317,428.5	-1.1
12		174,908.9	3.0	87,590.4	79,321.6	8,268.7	47,017.1	40,301.5	331,064.3	4.8
2002 03		198,939.7	8.3	102,964.3	92,059.3	10,905.0	49,041.3	46,934.0	345,871.9	6.5
06		213,270.1	1.6	113,054.1	103,517.4	9,536.7	51,176.5	49,039.5	400,978.5	3.3
09		256,280.1	6.2	134,245.4	121,098.3	13,147.1	61,597.0	60,437.7	437,364.8	1.5
12		282,397.8	3.8	147,211.7	137,182.7	10,029.0	71,147.8	64,038.2	470,125.6	5.0
2003 03		324,137.7	3.4	176,134.3	163,836.2	12,298.1	84,067.8	63,935.6	504,247.3	2.8
06		348,727.8	2.1	193,137.5	180,771.4	12,366.1	92,050.0	63,540.3	557,715.7	2.8
09		394,923.6	6.4	210,986.9	200,585.6	10,401.3	104,909.9	79,026.8	609,341.1	3.5
12		490,499.0	15.8	240,280.1	228,133.5	12,146.6	123,253.9	126,965.0	703,332.4	12.1
2004 03		529,391.3	1.2	272,769.8	259,914.4	12,855.4	152,842.0	103,779.5	740,190.6	2.6
06		557,364.5	0.9	284,331.0	270,335.1	13,995.9	160,929.0	112,104.5	812,171.5	2.9
09		585,255.1	-0.5	287,009.8	270,634.3	16,375.5	186,002.3	112,243.0	827,250.0	-1.8
12		625,704.9	-0.2	300,976.4	287,894.4	13,082.0	216,434.0	108,294.5	847,032.4	0.9
2005 01		647,462.6	3.5	312,267.2	298,234.1	14,033.1	217,519.3	117,676.1	858,734.9	1.4
02		662,992.0	2.4	328,770.8	309,224.3	19,546.6	220,944.3	113,276.9	860,114.8	0.2
03		679,616.2	2.5	347,514.7	325,127.1	22,387.6	215,566.3	116,535.1	892,973.8	3.8
04		684,463.4	0.7	340,492.9	319,574.4	20,918.5	219,594.1	124,376.3	932,476.0	4.4
05		716,631.3	4.7	338,352.0	315,445.5	22,906.5	237,557.8	140,721.4	972,132.9	4.3
06		731,924.1	2.1	371,051.0	346,587.8	24,463.2	219,213.0	141,660.1	1,009,588.5	3.9
07		761,332.4	4.0	384,609.8	360,992.6	23,617.2	225,450.5	151,272.1	1,040,143.3	3.0
08		787,961.6	3.5	384,715.4	340,952.0	43,763.4	235,586.9	167,659.3	1,081,203.0	3.9
09		838,852.7	6.5	402,581.0	367,789.8	34,791.2	244,643.2	191,628.5	1,112,374.9	2.9
10		850,661.3	1.4	425,198.7	376,276.9	48,921.8	244,167.6	181,295.0	1,112,799.5	0.0
11		857,516.1	0.8	434,454.3	386,252.5	48,201.8	251,869.0	171,192.8	1,110,615.1	-0.2
12		871,014.4	1.6	426,033.6	399,980.0	26,053.6*	245,675.0	199,305.8	1,140,138.8*	2.7
2006 01		878,891.2	0.9	446,686.3	412,001.5	34,684.8	254,634.6	177,570.3	1,146,470.7	0.6
02		883,278.8	0.5	460,269.0	430,645.2	29,623.8	246,550.3	176,459.5	1,145,392.3	-0.1
03		916,865.6	3.8	477,315.2	445,639.2	31,676.1	247,707.4	191,842.9	1,191,241.3	4.0
04		958,408.2	4.5	485,462.2	446,255.3	39,206.9	264,067.0	208,879.1	1,251,237.3	5.0
05		1,076,520.2	12.3	511,760.6	475,582.3	36,178.3	358,141.4	206,618.2	1,402,747.6	12.1
06		1,120,923.4	4.1	528,741.6	498,240.6	30,501.0	382,789.2	209,392.6	1,449,536.2	3.3
07		1,147,752.1	2.4	547,143.3	515,867.8	31,275.5	395,566.2	205,042.7	1,472,774.8	1.6
08		1,147,853.6	0.0	559,724.0	530,341.8	29,382.2	396,381.7	191,747.9	1,490,910.5	1.2
09		1,208,172.2	5.3	586,458.1	550,111.8	36,346.3	396,934.5	224,779.5	1,539,434.7	3.3
10		1,226,302.4	1.5	614,829.9	577,650.1	37,179.8	412,125.6	199,346.9	1,546,336.6	0.4
11		1,261,053.4	2.8	641,306.8	598,955.8	42,351.1	408,577.3	211,169.3	1,586,079.8	2.6
12		1,204,590.0	-4.5	692,483.4	647,774.2	44,709.3	302,921.7	209,184.9	1,536,493.3	-3.1
2007 01		1,220,938.2	1.4	734,902.8	687,742.5	47,160.3	277,463.9	208,571.5	1,555,935.2	1.3
02		1,285,108.7	5.3	802,675.3	754,942.5	47,732.8	279,842.6	202,590.8	1,627,705.5	4.6
03		1,345,195.6	4.7	835,676.4	786,524.9	49,151.5	287,407.4	222,111.8	1,746,694.2	7.3
04		1,428,483.6	6.2	855,496.0	800,771.8	54,724.2	303,130.1	269,857.5	1,883,602.9	7.8
05		1,475,779.7	3.3	897,146.0	838,129.4	59,016.6	309,090.0	269,543.6	1,966,072.8	4.4
06		1,513,845.6	2.6	944,032.3	872,878.8	71,153.5	316,914.4	252,898.9	2,016,069.1	2.5
07		1,597,609.0	5.5	996,877.3	912,256.7	84,620.7	323,247.2	277,484.4	2,094,652.8	3.9
08		1,659,939.1	3.9	1,019,702.1	933,639.7	86,062.3	355,266.9	284,970.2	2,195,407.6	4.8
09		1,676,499.0	1.0	1,031,160.0	935,610.7	95,549.4	350,625.3	294,713.6	2,191,931.3	-0.2
10		1,740,916.3	3.8	1,058,746.0	954,998.8	103,747.2	363,061.3	319,109.0	2,264,350.6	3.3
11		1,714,984.8	-1.5	1,079,409.4	975,460.3	103,949.0	352,319.6	283,255.8	2,234,916.7	-1.3
12		1,810,579.8	5.6	1,113,729.7	1,014,880.8	98,848.9	375,987.2	320,862.9	2,401,051.4	7.4

Consumer Price index

(in percent)

End-of period	Food items	Of which							Clothes, shoes
		Wheat products	Meat and meat products	Milk and dairy products	Sugar, candy, tea and fruits	Potatoes, and vegetables	Other food items	Soft drinks, cigarettes	
1991 12	134.4	124.0	136.4	156.3			131.4	126.9	192.4
1992 12	755.4	978.4	468.3	884.2			828.9	800.1	679.1
1993 12	2,247.0	2,906.7	1,744.3	2,153.2			2,736.5	1,424.5	1,304.3
1994 12	3,565.3	4,147.5	2,723.1	3,658.8			4,681.4	1,855.4	2,363.1
				1995.12=100					
1995 12 ¹	58.7	17.2	18.4	5.1			4.9	4.5	10.3
1996 12	78.2	27.0	19.5	7.1			7.5	6.3	15.4
1997 12	87.0	28.1	21.2	9.6			8.7	7.8	20.6
1998 01	89.4	27.6	23.3	9.6			8.8	7.8	20.6
1998 12	87.7	27.6	22.0	10.0			10.1	7.7	22.8
1999 12	95.5	28.8	25.0	10.0			10.6	8.5	23.9
2000 12 ¹	46.6	12.9	12.4	5.2	4.9	4.1	3.5	3.7	13.5
				2000.12=100					
2001 03	55.5	13.1	18.6	6.5	4.9	4.8	3.5	4.1	13.3
06	56.0	13.0	21.3	4.1	5.0	4.9	3.5	4.2	13.4
09	47.4	13.2	13.9	4.1	4.9	3.6	3.5	4.2	13.9
12	50.7	13.3	14.8	5.5	4.9	4.3	3.6	4.3	14.1
2002 03	51.6	12.9	15.9	5.5	4.9	4.4	3.6	4.4	13.7
06	53.5	12.5	18.8	3.8	5.1	5.7	3.5	4.2	13.6
09	47.9	12.1	15.0	3.8	4.7	4.5	3.6	4.2	13.6
12	49.9	12.2	14.8	5.6	4.7	4.8	3.6	4.3	14.9
2003 03	54.9	11.7	19.5	5.6	4.7	5.7	3.6	4.2	14.2
06	59.0	11.9	25.3	4.1	5.0	5.0	3.6	4.2	13.7
09	50.8	13.0	17.8	3.9	4.5	3.9	3.6	4.1	14.1
12	53.8	14.2	18.3	5.3	4.8	3.5	3.7	4.2	14.9
2004 03	59.8	15.0	22.2	5.5	5.1	4.0	3.8	4.2	14.4
06	63.5	15.6	26.4	4.0	5.1	4.3	3.8	4.3	14.0
09	61.5	16.4	23.6	4.1	5.0	4.1	3.9	4.4	14.4
12	61.9	16.1	22.6	5.2	5.1	4.3	4.0	4.4	15.0
2005 01	64.8	16.0	24.7	5.4	5.1	4.8	4.2	4.7	15.0
02	68.6	16.0	27.6	5.6	5.1	5.2	4.4	4.7	14.7
03	69.0	16.1	28.0	5.5	5.1	5.2	4.4	4.7	14.7
04	73.2	16.0	32.3	5.2	5.1	5.3	4.4	4.8	14.5
05	75.7	16.0	35.4	5.0	5.1	5.3	4.2	4.8	14.5
06	78.7	15.8	38.1	4.1	5.4	6.3	4.2	4.7	14.4
07	79.1	15.8	37.3	4.0	5.5	7.7	4.2	4.7	14.3
08	73.5	15.9	33.6	4.1	5.6	5.4	4.3	4.7	14.4
09	71.5	16.0	31.6	4.5	5.4	4.9	4.5	4.7	14.7
10	69.2	15.9	28.9	5.0	5.5	4.7	4.5	4.7	14.8
11	69.5	15.9	28.3	5.6	5.6	4.9	4.5	4.7	14.9
12	71.5	15.8	29.9	5.8	5.5	5.2	4.5	4.7	14.9
2006 01	72.8	15.8	31.0	6.0	5.6	5.5	4.3	4.6	14.9
02	74.6	15.8	32.5	5.9	5.8	5.7	4.3	4.7	14.9
03	74.0	15.8	31.6	6.0	5.9	5.6	4.3	4.8	14.9

Consumer Price index

(in percent)

End-of period	Of which					Utilities			Household items	Medicine	Transport & communication
	Cotton fabrics	Men's costume, clothing	Women's clothing	Children's clothing	Shoes						
1991 12	148.4	174.5	229.3	100.0	236.1	115.5			209.6	100.0	137.3
1992 12	676.3	347.3	541.2	440.9	965.4	245.8			795.8	196.7	535.3
1993 12	1,161.6	650.4	896.4	1,404.4	1,782.9	1,068.3			2,087.2	1,933.9	1,673.3
1994 12	1,957.5	1,259.4	2,110.3	2,126.9	3,377.3	1,595.7			3,247.2	1,933.9	3,221.1
			1995.12=100								
1995 12 ¹	0.4	1.5	3.4	1.0	4.0	10.4			3.9	2.1	7.6
1996 12	0.6	2.3	4.5	1.8	6.2	17.9			5.4	3.0	13.6
1997 12	0.7	2.9	6.5	2.3	8.2	27.0			6.6	3.8	15.0
1998 01	0.7	2.9	6.5	2.3	8.2	26.9			6.6	3.9	16.0
1998 12	0.6	3.2	6.9	2.4	9.4	29.5			6.1	3.9	17.8
1999 12	0.6	3.1	7.1	2.4	10.2	32.1			6.5	4.6	23.3
12 ²	0.3	3.5	4.6	0.5	4.6	14.1			3.2	1.4	10.1
			2000.12=100								
2001 03	0.2	3.5	4.6	0.5	4.5	14.7			3.3	1.4	10.2
06	0.2	3.5	4.6	0.5	4.5	14.6			3.3	1.4	10.0
09	0.2	3.8	4.7	0.6	4.6	14.9			3.2	1.4	10.1
12	0.2	3.9	4.7	0.6	4.6	17.2			3.3	1.4	10.2
2002 03	0.3	3.9	4.6	0.5	4.5	16.4			3.3	1.4	10.3
06	0.3	3.8	4.6	0.5	4.5	16.3			3.3	1.5	10.3
09	0.3	3.8	4.5	0.6	4.5	17.5			3.3	1.5	10.3
12	0.3	4.0	4.8	0.6	5.2	18.0			3.4	1.5	10.5
2003 03	0.3	3.9	4.5	0.6	4.9	16.7			3.3	1.6	10.5
06	0.3	3.7	4.4	0.6	4.6	16.7			3.2	1.6	10.4
09	0.3	3.9	4.6	0.6	4.7	17.8			3.3	1.6	10.7
12	0.3	4.0	4.7	0.7	5.1	17.7			3.3	1.6	10.8
2004 03	0.3	4.0	4.5	0.6	5.0	17.3			3.3	1.6	10.8
06	0.3	3.8	4.5	0.6	4.9	16.6			3.3	1.6	10.8
09	0.3	4.1	4.5	0.6	4.9	17.6			3.4	1.7	12.6
12	0.3	4.3	4.6	0.7	5.0	18.4			3.4	1.7	13.1
2005 01	0.4	4.2	4.6	0.7	5.0	18.1			3.4	1.7	13.3
02	0.4	4.2	4.6	0.7	5.0	18.9			3.4	1.7	13.3
03	0.4	4.1	4.6	0.7	5.0	19.0			3.5	1.7	13.4
04	0.4	4.1	4.6	0.7	4.9	19.0			3.4	1.7	13.5
05	0.4	4.0	4.6	0.7	4.9	18.8			3.5	1.7	13.7
06	0.4	4.0	4.6	0.7	4.9	18.7			3.5	1.8	13.8
07	0.4	4.0	4.6	0.7	4.8	18.7			3.5	1.8	13.8
08	0.4	4.0	4.6	0.7	4.8	18.7			3.6	1.8	13.8
09	0.4	4.0	4.7	0.7	5.0	19.6			3.5	1.8	13.8
10	0.4	4.0	4.8	0.7	5.0	19.8			3.6	1.8	13.8
11	0.4	4.1	4.8	0.7	5.0	19.8			3.6	1.8	13.9
12	0.4	4.1	4.8	0.7	5.0	19.5			3.6	1.8	13.9
2006 01	0.4	4.1	4.8	0.7	5.0	19.2			3.6	1.8	14.0
02	0.4	4.1	4.7	0.7	5.0	20.2			3.6	1.9	14.0
03	0.4	4.1	4.7	0.7	5.0	19.8			3.6	1.9	14.1

End-of period	Of which					Housing water, electricity and fuels	Of which		Furnishings household equipments and tools	Medical care & services	Transportation
	Clothing, cloth	Men's clothing	Women's clothing	Children's clothing	Shoes		Water supply & miscellaneous services	Electricity, gas and other fuels			
			2005.12=100								
2005 12 ³	6.26	2.72	2.62	0.33	3.88	10.51	3.32	6.09	3.31	1.79	9.53
2006 04	6.69	3.01	2.76	0.33	3.87	10.13	3.56	5.45	3.32	1.82	10.28
05	6.67	2.98	2.77	0.33	3.90	10.15	3.57	5.45	3.33	1.82	10.32
06	6.67	2.88	2.77	0.33	3.90	10.12	3.57	5.45	3.34	1.82	10.36
07	6.67	2.85	2.77	0.33	3.86	10.04	3.57	5.36	3.34	1.82	10.36
08	6.75	2.89	2.79	0.34	3.89	10.04	3.57	5.36	3.36	1.83	10.42
09	6.77	2.93	2.82	0.34	3.91	11.21	3.91	6.18	3.38	1.87	10.57
10	6.86	2.98	2.84	0.34	3.88	11.35	3.91	6.31	3.44	2.18	10.57
11	6.96	3.00	2.91	0.35	4.04	11.44	3.91	6.39	3.55	2.20	10.78
12	6.97	3.00	2.91	0.35	4.04	11.44	3.91	6.39	3.55	2.22	10.67
2007 01	6.91	2.97	2.90	0.34	3.99	10.71	3.88	5.70	3.56	2.22	10.98
02	6.91	2.97	2.90	0.34	3.95	10.68	3.88	5.70	3.56	2.22	11.07
03	6.89	2.97	2.90	0.34	3.93	10.66	3.88	5.69	3.56	2.22	10.94
04	6.80	2.94	2.84	0.33	3.87	10.94	4.44	5.39	3.65	2.24	10.91
05	6.66	2.86	2.79	0.33	3.86	10.93	4.44	5.35	3.65	2.24	10.82
06	6.62	2.87	2.74	0.33	3.92	10.95	4.44	5.13	3.63	2.24	11.06
07	6.61	2.87	2.74	0.33	3.91	11.15	4.44	5.25	3.66	2.24	11.06
08	6.63	2.87	2.77	0.34	3.92	11.48	4.44	5.52	3.73	2.47	11.33
09	6.80	2.97	2.78	0.37	4.01	12.07	4.44	6.21	3.85	2.48	11.33
10	6.84	2.97	2.79	0.38	4.19	13.20	4.44	7.32	3.91	2.48	12.33
11	6.89	3.02	2.76	0.39	4.36	12.95	4.44	7.05	3.99	2.48	12.61
12	6.96	3.04	2.78	0.41	4.37	12.72	4.54	6.72	4.04	2.53	11.81

¹ Since December 2000, CPI basket items have been updated from 205 to 239.² Since April 2006, the items in consumer baskets have been updated to 287 and prices of December 2005 have been taken as the base period.

Consumer Price index

(in percent)

End-of period	Education	Other goods & services	General CPI	Monthly changes %	Changes from the beginning of year %	Annual changes	Moving average of monthly inflation	Core inflation ³	
1991 12	277.3	152.3	152.7	5.1					
1992 12	581.0	430.2	649.8	11.0	325.5				
1993 12	2,154.8	1,483.8	1,838.7	2.5	183.0				
1994 12	4,427.9	2,904.7	3,057.8	2.1	66.3				
1995.12=100									
1995 12 ¹	3.6	3.5	100.0	2.1	53.1				
1996 12	5.7	5.3	144.6	3.2	44.6				
1997 12	8.2	6.4	174.2	0.9	20.5	20.5	1.6		
1998 01	8.3	6.5	177.9	2.1	2.1	20.9	1.7		
1998 12	9.8	7.4	184.7	2.1	6.0	6.0	0.5		
1999 12	11.3	7.9	203.1	1.6	10.0	10.0	0.8		
12 ²	7.4	3.7	100.0	2.1	8.1				
2000.12=100									
2001 03	7.4	3.7	109.5	2.7	9.5	13.2	0.6		
06	7.3	3.7	109.8	-3.7	9.8	4.5	0.2		
09	7.3	3.8	102.0	-2.0	2.0	5.8	0.6		
12	7.3	3.8	107.9	2.1	8.0	8.0	0.7		
2002 03	7.2	3.8	107.8	-1.4	-0.1	-1.6	-0.1	-1.3	
06	7.2	3.8	109.5	-0.5	1.5	-0.2	0.0	-0.1	
09	7.5	3.8	105.4	-0.9	-2.3	3.4	0.3	0.4	
12	7.6	3.9	109.8	1.6	1.6	1.6	0.1	0.5	
2003 03	7.5	4.3	113.0	1.5	3.0	4.9	0.4	-1.0	
06	7.8	4.3	116.7	-2.0	6.3	6.6	0.5	0.2	
09	8.4	4.4	111.1	0.1	1.2	5.4	0.5	2.2	
12	8.4	4.5	114.9	1.1	4.7	4.7	0.4	-0.7	
2004 03	8.4	4.5	120.1	0.9	4.5	6.2	0.8	0.4	
06	8.4	4.7	123.0	0.3	7.0	5.3	0.7	0.1	
09	9.0	4.8	125.0	-0.4	8.9	12.6	1.3	1.1	
12	9.0	4.8	127.4	0.9	11.0	11.0	1.2	-0.5	
2005 01	9.0	4.8	130.1	2.1	2.1	11.6	1.2	0.0	0.04
02	9.0	4.8	134.5	3.3	5.5	13.1	1.2	0.9	0.90
2005 03	9.0	4.9	135.1	0.5	6.0	12.6	1.0	0.4	1.32
04	8.9	4.9	139.2	3.0	9.2	14.6	1.2	-0.1	1.20
05	9.0	4.9	141.7	1.8	11.2	15.6	1.2	-0.3	0.85
06	9.0	4.9	144.7	2.2	13.6	17.8	1.4	0.2	1.02
07	8.9	4.9	144.9	0.1	13.8	16.0	1.3	-0.1	0.93
08	9.6	4.9	140.2	-3.3	10.0	11.7	0.9	1.2	2.12
09	9.6	4.9	139.4	-0.5	9.5	11.6	0.9	1.4	3.53
10	9.6	4.9	137.7	-1.4	8.0	9.8	0.8	0.5	4.06
11	9.6	5.0	137.9	0.1	8.1	9.1	0.8	0.0	4.01
12	9.6	5.0	139.6	1.2	9.5	9.5	0.8	-0.5	3.54
2006 01	9.6	5.0	140.8	0.8	0.8	8.1	0.7	-0.3	-0.33

End-of period ³	Of which							General CPI	Monthly changes	Changes from the	Annual changes	Moving average of monthly inflation	Core inflation ⁴	
	Operation of personal transport equipment	Transport services	Communication	Recreation and culture	Education	Restaurants and hotels	Miscellaneous goods & services						Monthly changes	Changes from the
2005.12=100														
2005 12 ³	2.23	4.80	3.13	3.70	5.44	2.70	4.58	100.0						
2006 04	2.20	5.78	2.85	3.78	5.44	2.77	4.65	104.4	2.1	4.4	4.8	0.4	0.6	2.0
05	2.25	5.79	2.80	3.82	5.44	2.79	4.81	104.8	0.4	4.8	3.2	0.3	0.5	2.5
06	2.29	5.79	2.75	3.82	5.44	2.79	4.81	106.0	1.2	6.0	2.2	0.2	0.3	2.9
07	2.29	5.79	2.74	3.85	5.44	2.79	4.81	105.9	-0.2	5.9	1.8	0.2	0.0	2.9
08	2.35	5.79	2.71	3.83	6.01	2.84	4.81	105.3	-0.6	5.3	4.7	0.4	0.8	3.6
09	2.45	5.80	2.71	3.93	6.01	2.87	4.82	105.0	-0.3	5.0	5.0	0.4	1.9	5.3
10	2.45	5.80	2.71	3.93	6.01	2.94	4.88	105.1	0.1	5.1	6.5	0.5	0.9	6.3
11	2.45	5.80	2.71	3.94	6.01	2.92	4.88	105.5	0.4	5.5	6.8	0.6	0.9	7.2
12	2.35	5.80	2.71	3.93	6.01	2.98	4.89	106.0	0.5	6.0	6.0	0.5	0.1	7.3
2007 01	2.33	5.81	2.61	3.93	6.01	3.02	4.89	105.9	-0.1	-0.1	4.2	0.4	-0.8	-0.8
02	2.31	5.81	2.59	3.93	6.01	3.07	4.91	108.0	2.0	1.9	5.4	0.4	0.2	-0.6
03	2.29	5.81	2.59	3.90	6.01	3.08	4.91	108.3	0.3	2.2	5.9	0.5	-0.1	-0.7
04	2.25	5.81	2.58	3.90	6.01	3.09	4.95	109.8	1.4	3.6	5.2	0.4	0.4	-0.3
05	2.25	5.84	2.59	4.00	6.01	3.11	4.95	110.9	1.0	4.5	5.7	0.5	-0.1	-0.4
06	2.38	5.87	2.56	3.82	6.01	3.11	4.87	112.8	1.8	6.4	6.3	0.5	0.4	0.1
07	2.38	5.88	2.38	3.83	6.01	3.11	4.87	113.4	0.6	7.0	7.1	0.6	0.6	0.7
08	2.55	5.93	2.42	3.82	7.22	3.18	4.88	117.2	3.3	10.6	11.3	0.9	5.3	6.1
09	2.54	5.93	2.43	3.81	7.22	3.35	4.88	118.9	1.5	12.2	13.2	1.1	2.9	9.3
10	2.65	6.75	2.43	3.86	7.22	3.32	5.00	119.9	0.9	13.2	14.2	1.1	3.2	12.7
11	2.88	6.78	2.43	3.94	7.22	3.31	5.07	120.6	0.6	13.9	14.4	1.1	1.8	14.0
12	2.88	6.00	2.43	3.99	7.22	3.39	5.07	122.0	1.1	15.1	15.1	1.2	0.1	14.3

¹ Since December 2000, CPI basket items have been updated from 205 to 239.² Since April 2006, the items in consumer baskets have been updated to 287 and prices of December 2005 have been taken as the base period.³ Core inflation is estimated excluding the 29 items of meat and meat products, milk and dairy products and vegetables whose prices are very volatile.

Monetary survey

(in millions of togrogs)

End-of period	Net foreign assets	Domestic credit (net)	Of which:			
			General Government	Of which:		Other financial corporation
				General Government	Local Government	
1993 12	23,395.7	24,460.3	-7,143.4			
1994 12	29,699.3	49,190.3	-3,773.1			
1995 12	51,709.7	45,494.7	-17,227.8			
1996 12	73,733.6	90,240.4	19,920.3			
1997 12	135,437.2	67,635.4	13,352.1			
1998 12	96,557.5	136,062.0	41,460.0			
1999 12	167,541.5	116,635.6	34,555.7			
2000 12	201,696.9	84,831.1	17,171.2			
2001 12	220,165.7	129,259.5	-6,829.1			
2002 12	308,507.4	200,027.4	-32,439.3			
2003 12	256,341.5	514,615.2	96,687.3			
2004 03	269,113.3	550,248.3	77,945.9	82,772.0	-4,826.0	123.7
06	273,072.5	587,827.4	61,165.9	67,627.6	-6,461.7	516.6
09	298,850.9	614,054.2	46,391.0	53,313.5	-6,922.5	439.0
12	311,005.2	647,305.1	40,506.5	45,022.0	-4,515.6	455.1
2005 01	341,477.3	621,735.9	7,437.4	14,347.2	-6,909.8	845.9
02	351,432.4	630,698.3	22,412.9	29,003.5	-6,590.6	681.1
03	355,953.1	656,792.2	15,718.6	21,303.2	-5,584.6	491.4
03	372,190.3	680,110.2	19,772.9	26,006.3	-6,233.4	743.9
05	377,715.6	697,576.5	11,792.5	17,651.1	-5,858.6	745.2
06	398,458.6	722,028.0	1,353.7	6,891.6	-5,537.9	1,587.0
07	419,683.2	709,345.0	-25,465.9	-19,261.1	-6,204.8	1,048.9
08	469,307.9	726,048.5	-26,319.1	-21,091.8	-5,227.3	1,084.6
09	506,890.1	737,705.6	-37,364.2	-32,586.6	-4,777.7	807.1
10	518,417.0	732,782.7	-48,464.1	-44,013.0	-4,451.1	929.7
11	503,056.8	764,734.6	-59,196.8	-54,941.2	-4,255.6	842.2
12	570,198.7	769,004.6 ²	-90,847.2	-87,822.4	-3,024.9	498.8
2006 01	543,759.0	817,444.6	-67,912.6	-64,056.5	-3,856.2	571.8
02	535,932.9	800,078.1	-104,552.8	-100,368.7	-4,184.1	780.3
03	576,426.1	837,634.7	-114,042.7	-110,040.3	-4,002.4	946.3
04	639,396.8	863,821.1	-117,964.7	-112,376.6	-5,588.1	1,142.3
05	808,617.6	840,337.1	-162,695.7	-157,177.8	-5,517.9	1,301.5
06	819,508.4	866,442.9	-184,466.7	-178,133.0	-6,333.7	1,221.9
07	902,601.1	877,066.2	-209,105.3	-202,716.8	-6,388.5	1,550.4
08	919,807.0	840,496.6	-263,564.6	-256,821.6	-6,743.0	1,733.0
09	973,853.2	816,958.7	-303,950.9	-297,407.6	-6,543.2	1,517.7
10	1,030,017.5	753,960.4	-375,329.2	-367,225.1	-8,104.1	2,505.3
11	1,121,292.6	761,366.8	-420,030.7	-412,315.6	-7,715.1	1,485.1
12	1,131,772.5	745,404.8	-477,882.5	-470,640.1	-7,242.4	1,597.1
2007 01	1,188,068.6	708,350.4	-571,814.0	-561,881.8	-9,932.2	1,531.0
02	1,201,765.6	775,250.2	-558,832.9	-549,147.8	-9,685.1	2,588.9
03	1,261,556.0	858,887.2	-545,685.9	-537,827.8	-7,858.1	2,605.8
04	1,346,466.7	890,479.5	-587,127.5	-576,466.3	-10,661.2	2,834.0
05	1,408,308.5	929,679.6	-580,058.8	-568,931.0	-11,127.8	2,451.4
06	1,403,671.5	977,750.0	-622,470.7	-611,969.3	-10,501.3	2,437.1
07	1,446,181.2	979,827.0	-660,543.5	-649,373.7	-11,169.9	1,349.8
08	1,494,497.9	1,082,496.4	-725,612.5	-715,049.0	-10,563.5	1,890.8
09	1,498,013.9	1,091,172.3	-767,948.6	-756,170.4	-11,778.2	2,025.3
10	1,515,869.1	1,157,288.0	-772,390.9	-760,585.8	-11,805.1	2,846.7
11	1,431,809.6	1,162,499.1	-798,579.6	-787,655.1	-10,924.5	2,747.5
12	1,439,509.6	1,329,532.9	-726,528.0	-719,606.1	-6,921.9	2,828.5

Monetary survey (continued)

(in millions of togrogs)

End-of period						Total assets
	Public sector	Private sector	Individuals	Other	Unclassified loans	
1993 12	21,744.4	9,859.3			0.0	47,856.0
1994 12	12,193.3	40,638.0			132.1	78,889.6
1995 12	10,883.3	51,653.5			185.7	97,204.4
1996 12	14,520.3	22,851.9			32,947.9	163,974.0
1997 12	11,713.0	28,112.6			14,457.7	203,072.6
1998 12	18,295.6	43,667.5			32,638.9	232,619.5
1999 12	8,564.5	31,408.6			42,106.7	284,177.1
2000 12	6,281.5	45,482.9			15,895.6	286,528.0
2001 12	10,402.0	114,670.4			11,016.2	349,425.2
2002 12	12,184.9	203,567.2			16,714.5	508,534.8
2003 12	16,203.6	365,024.4			36,700.0	770,956.7
2004 03	16,633.2	279,126.6	160,402.0	16,016.8		819,361.5
06	15,410.9	315,218.4	180,962.7	14,553.0		860,899.9
09	14,743.8	334,519.1	201,874.2	16,087.1		912,905.1
12	13,125.7	365,057.9	210,931.1	17,228.9		958,310.2
2005 01	13,113.5	358,750.6	224,693.6	16,894.9		963,213.3
02	15,216.1	354,971.8	221,895.1	15,521.3		982,130.7
03	13,868.3	376,332.2	233,706.2	16,675.5		1,012,745.3
04	16,355.5	3.0	239,204.3	18,237.8		1,052,300.5
05	17,733.7	397,800.3	250,603.4	18,901.4		1,075,292.1
06	22,295.2	418,590.5	262,786.4	15,415.3		1,120,486.6
07	24,183.8	431,354.0	262,860.8	15,363.4		1,129,028.1
08	17,070.6	436,132.4	282,906.3	15,173.8		1,195,356.4
09	21,194.9	442,998.2	294,561.9	15,507.7		1,244,595.8
10	20,924.7	443,639.2	300,194.7	15,558.4		1,251,199.6
11	21,987.4	471,351.1	314,154.3	15,596.4		1,267,791.4
12	34,169.2	489,064.7	321,606.8	14,512.4		1,339,203.3
2006 01	36,669.8	496,164.5	337,689.3	14,261.8		1,361,203.6
02	35,045.4	508,904.2	346,969.9	12,931.1		1,336,011.0
03	29,158.7	544,639.2	363,811.0	13,122.3		1,414,060.8
04	24,843.7	561,434.1	377,175.2	17,190.5		1,503,217.9
05	26,894.4	563,656.9	393,537.4	17,642.7		1,648,954.7
06	29,816.4	590,566.2	413,244.1	16,061.0		1,685,951.3
07	33,574.6	618,077.6	417,405.3	15,563.7		1,779,667.3
08	28,931.0	612,743.0	445,154.1	15,500.0		1,760,303.6
09	32,749.0	607,338.3	461,241.8	18,062.8		1,790,811.9
10	31,147.0	606,473.2	470,830.6	18,333.4		1,783,977.9
11	31,676.9	639,301.1	491,852.5	17,081.9		1,882,659.4
12	36,731.6	659,019.3	507,570.0	18,369.3		1,877,177.3
2007 01	34,991.1	692,193.1	530,832.8	20,616.4		1,896,419.1
02	36,437.9	731,510.3	543,075.1	20,470.9		1,977,015.9
03	38,207.6	776,783.7	566,658.6	20,317.5		2,120,443.2
04	36,051.3	835,943.2	581,557.9	21,220.4		2,236,946.2
05	23,141.8	874,857.8	590,818.0	18,469.5		2,337,988.1
06	25,409.5	937,067.2	616,179.5	19,127.4		2,381,421.5
07	21,653.4	954,650.4	643,527.9	19,189.0		2,426,008.1
08	23,436.7	1,061,048.0	701,676.5	20,056.9		2,576,994.3
09	22,979.8	1,081,407.4	733,341.1	19,367.3		2,589,186.2
10	20,139.3	1,115,052.5	772,387.8	19,252.6		2,673,157.1
11	18,132.7	1,121,277.0	798,409.3	20,512.1		2,594,308.6
12	27,331.8	1,166,149.5	838,778.5	20,972.4		2,769,042.5

Monetary survey (continued)

(in millions of togrogs)

End-of period	Money	Quasi money	Government lending loans	Other items (net)	Total liabilities
1993 12	18,548.4	24,215.8		5,091.8	47,856.0
1994 12	32,871.2	43,905.8		2,112.6	78,889.6
1995 12	42,636.5	59,408.2		-4,840.3	97,204.4
1996 12	64,301.6	64,093.7		35,578.7	163,974.0
1997 12	76,108.9	93,956.6		33,007.1	203,072.6
1998 12	82,582.0	84,667.6		65,369.9	232,619.5
1999 12	114,825.7	105,341.3		64,010.1	284,177.1
2000 12	130,775.0	128,067.7		27,685.4	286,528.0
2001 12	156,155.3	174,908.9		18,360.9	349,425.2
2002 12	187,727.8	282,397.8		38,409.2	508,534.8
2003 12	212,833.4	490,499.0		67,624.3	770,956.7
2004 03	210,799.3	529,391.3		79,170.9	819,361.5
06	254,807.0	557,364.5		48,728.4	860,899.9
09	241,994.9	585,255.1		85,655.1	912,905.1
12	221,327.6	625,704.9		111,277.8	958,310.2
2005 01	211,272.3	647,462.6	0.0	104,478.4	963,213.3
02	197,122.8	662,992.0	18,882.1	103,133.7	982,130.7
03	213,357.6	679,616.2	18,824.5	100,946.9	1,012,745.3
04	248,012.6	684,463.4	18,171.5	101,653.0	1,052,300.5
05	255,501.6	716,631.3	18,198.1	84,961.2	1,075,292.1
06	277,664.4	731,924.1	17,865.2	93,032.9	1,120,486.6
07	278,810.8	761,332.4	15,046.8	73,838.1	1,129,028.1
08	293,241.4	787,960.4	15,354.9	98,799.7	1,195,356.4
09	273,522.2	838,852.7	16,372.8	115,848.1	1,244,595.8
10	262,138.2	850,661.3	15,272.5	123,127.7	1,251,199.6
11	253,099.1	857,516.1	17,392.5	139,783.8	1,267,791.4
12	269,124.4	871,014.4	17,272.7	181,791.8	1,339,203.3
2006 01	267,579.6	878,891.2	16,929.6	197,803.3	1,361,203.6
02	262,113.5	883,278.8	17,843.5	172,775.2	1,336,011.0
03	274,375.7	916,865.6	17,813.9	205,005.6	1,414,060.8
04	292,829.0	958,408.2	17,425.7	234,554.9	1,503,217.9
05	326,227.3	1,076,520.2	0.0	246,207.1	1,648,954.7
06	328,612.9	1,120,923.4	17,577.6	218,837.4	1,685,951.3
07	325,022.7	1,147,752.1	16,523.9	290,368.6	1,779,667.3
08	343,056.9	1,147,853.6	16,656.6	252,736.5	1,760,303.6
09	331,262.5	1,208,172.2	16,557.5	234,819.7	1,790,811.9
10	320,034.2	1,226,302.4	0.0	237,641.3	1,783,977.9
11	325,026.4	1,261,053.4	0.0	296,579.6	1,882,659.4
12	331,903.4	1,204,590.0	18,765.0	321,918.9	1,877,177.3
2007 01	334,997.0	1,220,938.2	18,626.3	321,857.6	1,896,419.1
02	342,596.8	1,285,108.7	17,457.3	331,853.0	1,977,015.9
03	401,498.6	1,345,195.6	17,577.9	356,171.1	2,120,443.2
04	455,119.2	1,428,483.6	17,097.1	336,246.2	2,236,946.2
05	490,293.1	1,475,779.7	17,013.1	354,902.3	2,337,988.1
06	502,223.4	1,513,845.6	16,712.5	348,639.9	2,381,421.5
07	497,043.9	1,597,609.0	0.0	331,355.3	2,426,008.1
08	535,468.4	1,659,939.1	17,548.1	364,038.6	2,576,994.3
09	515,432.2	1,676,499.0	18,375.0	378,880.0	2,589,186.2
10	523,434.3	1,740,916.3	17,242.1	391,564.4	2,673,157.1
11	519,932.0	1,714,984.8	17,779.4	341,612.5	2,594,308.6
12	590,471.6	1,810,579.8	17,620.0	350,371.0	2,769,042.5

Deposit rate

(in percent)

End-of period	Deposit rate							Securities rates			
	Current account		Demand deposit	Time deposit					Central bank's bills rate	Treasury bills rate (as a trading rate)	
	Domestic currency	Foreign currency		Domestic currency			Foreign currency			Domestic currency	Foreign currency
			0-1 year	1-3 year	3-5 year	0-1 year	1-3 year	3-5 year			
1993 12	2.0		24-100	70-153	125-151.8		10-72	120-300			
1994 12	2.0		10-63.8	50-101.2			6-72	72264			
1995 12	2.0		12.0-42.6	12.5-101.2			6.0-42.6	72-150			
1996 12	2.0		12.0-34.5	12.7-60.1	26.8		3.6-42.6	72-109			
1997 12	2.0		3.6-34.5	6.2-69.6	36.0-42.6		2.4-42.6	45.0-50.0			
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	23.3			
1999 12	3.0-6.0	1.0-3.6	3.0-13.2	9.6-30.0			3.6-14.4	11.4			
2000 03	3.0-6.0	1.0-3.6	3.6-13.2	9.6-30.0			3.6-14.4	11.2			
06	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0			2.4-14.4	15.6			
09	3.0-6.0	1.0-3.6	1.2-13.2	3.6-30.0			1.2-12.0	10.9			
12	2.4-6.0	1.0-3.6	1.2-13.2	3.6-24.0			1.2-12.0	8.6			
2001 03	2.4-6.0	1.0-3.6	1.2-9.6	2.4-24.0			1.0-12.0	11.2			
06	2.4-4.8	1.0-3.6	1.2-9.6	2.4-25.2			1.0-18.0	12.5			
09	0.3-4.8	0.3-3.6	1.2-9.6	2.4-24.0			1.0-14.4	9.9			
12	0.0-5.1	0.3-4.2	1.2-9.6	2.4-24.0			1.0-13.2	8.6			
2002 03	0.0-5.1	0.3-4.2	1.2-9.6	2.4-24.0			1.0-13.2	11.4			
06	0.0-6.0	0.3-3.6	2.4-9.6	2.4-22.0			1.0-13.2	11.5			
09	0.0-4.8	0.3-3.6	2.4-10.2	6.0-22.0			1.2-13.2	13.0			
12	0.0-6.0	0.3-3.0	2.4-10.2	6.0-22.0			1.2-12.0	9.9			
2003 03	0.0-6.0	0.3-3.0	2.4-10.2	6.0-22.0			1.2-12.0	3.9			
06	0.0-6.0	0.3-3.0	6.0-10.2	6.0-22.0			1.81-12.0	15.5			
09	0.0-6.0	0.3-3.0	3.6-10.2	6.0-22.2			2.4-12.0	11.3			
12	0.0-6.0	0.3-3.0	1.8-10.0	6.0-22.0			2.4-12.0	11.5			
2004 03	0.0-6.6	0.3-3.0	6.0-10.0	6.0-22.0			2.4-12.0	9.2	7.87	3.94	
06	0.0-4.8	0.3-3.0	6.0-10.0	6.0-20.4			1.4-12.0	13.3	12.90		
09	0.0-4.8	0.3-3.0	6.0-9.6	6.0-24.0			1.4-10.2	14.64		4.77	
12	0.0-4.8	0.3-3.0	6.0-9.6	6.0-20.4			1.4-9.6	15.75		4.40	
2005 01	0.0-4.8	0.3-3.0	6.0-9.9	6.0-20.4			1.4-9.8	14.99		5.51	
02	0.0-4.8	0.3-3.0	6.0-9.9	6.0-20.4			1.4-9.8	11.84	12.69		
03	0.0-4.8	0.3-3.0	6.0-9.9	6.0-20.4			1.4-9.8	9.52			
04	0.0-4.8	0.0-3.0	6.0-9.9	6.0-20.4			1.4-9.8	5.90	14.77		
05	0.0-4.8	0.0-3.0	6.0-9.9	6.0-20.4			1.4-9.8	6.57			
06	0.0-4.8	0.0-3.0	6.0-9.9	6.0-20.4			1.4-9.8	5.49			
07	0.0-4.8	0.0-3.0	6.0-9.9	6.0-20.4			1.4-9.8	7.11			
08	0.0-4.8	0.0-3.0	6.0-9.0	6.0-20.4			1.4-9.8	7.20			
09	0.0-4.8	0.0-3.0	6.0-10.0	6.0-19.2			1.4-9.8	6.95			
10	0.0-4.8	0.0-7.2	6.0-10.0	6.0-19.2			1.4-10.8	7.53			
11	0.0-4.8	0.0-7.2	6.0-9.96	6.0-19.2			1.4-10.8	6.52			
12	0.0-4.8	0.0-7.2	6.0-9.96	6.0-19.2			1.4-10.8	4.75			
2006 01	0.0-4.8	0.0-7.2	6.0-9.96	6.0-19.2			1.4-10.8	4.51			
02	0.0-4.8	0.0-7.2	6.0-9.96	6.0-19.2			1.4-10.8	4.18			
03	0.0-4.8	0.0-7.2	6.0-9.96	6.0-19.2			1.4-10.8	3.65	6.95		
04	0.0-4.8	0.0-7.2	6.0-10.0	6.0-19.2			1.4-10.8	7.55			
05	0.0-4.8	0.0-3.6	6.0-10.0	6.0-19.2			1.4-11.4	8.06			
06	0.0-4.8	0.0-3.6	6.0-10.0	6.0-19.2			1.4-11.4	7.40			
07	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.2			1.2-11.4	7.84			
08	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.2			1.2-11.4	7.97			
09	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.2			1.2-11.4	7.43			
10	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.2			1.2-11.4	6.76			
11	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.2			1.2-11.4	6.69			
12	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.4			1.4-11.4	6.42	6.50		
2007 01	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.4			1.4-11.4	6.59			
02	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.4			1.4-11.4	5.39			
03	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.4			1.4-11.4	4.26			
04	0.0-5.0	0.0-4.0	6.0-10.2	7.56-19.4			1.4-11.4	4.26	5.75		
05	0.0-4.8	0.0-3.6	6.0-10.2	7.56-19.4			1.4-11.4	4.29	5.79		
06	0.0-4.8	0.0-3.6	6.0-10.2	7.56-19.4			1.4-11.4	3.68	5.56		
07	0.0-4.8	0.0-3.6	6.0-10.2	7.56-19.4			1.4-11.4	5.67			
08	0.0-4.8	0.0-3.6	6.0-10.2	7.56-19.4			1.2-11.4	8.31	6.25		
09	0.0-4.8	0.0-3.6	6.0-10.2	7.56-19.3			1.2-11.4	8.75	7.45		
10	0.0-4.8	0.0-3.6	6.0-10.2	7.56-19.3			1.2-11.4	8.91	7.91		
11	0.0-4.8	0.0-3.6	6.0-10.3	7.56-19.3			1.2-11.4	9.19			
12	0.0-4.8	0.0-3.6	6.0-10.3	7.56-19.3			1.2-11.4	9.85			

Loan rate

(in percent)

End-of period	Interbank market rate						Banks loan rates		Paid rate
	Interbank loans rate	Repos rate	Central bank bills rate	Overnight loans rate	Interbank deposit rate	Weighted average rate	Domestic currency ¹	Foreign currency ¹	
1993 12									
1994 12									
1995 12									
1996 12									
1997 12									
1998 12							45.8	34.2	
1999 12							38.8	36.5	
2000 03							36.5	31.7	
06							38.9	27.1	
09							42.7	29.3	
12							34.7	25.8	
2001 03							38.0	21.5	
06							34.5	22.8	
09							37.4	21.4	
12							41.4	22.2	
2002 03							39.3	21.1	
06							33.4	22.3	
09							35.0	23.6	
12	15.9	7.2	5.2	12.0		6.91	33.4	19.8	30.7
2003 03	12.0	2.1	1.0	8.8		4.99	32.6	20.8	29.8
06		13.5	13.8	7.6		11.87	32.4	20.9	29.3
09		12.9	11.0	4.3		12.45	32.2	22.6	28.9
12	15.6	9.6	11.9			10.24	31.5	19.6	30.2
2004 03	15.00	8.77	8.58	8.00		8.83	30.3	19.7	29.2
06	17.00	10.90	12.87	13.05		11.33	30.3	21.8	27.6
09		14.05	14.46	7.39		13.83	32.3	18.2	26.1
12	15.91	15.59	15.74	15.52		15.36	30.0	17.9	25.0
2005 01	16.26	15.54	15.50	14.27		14.82	32.7	16.3	24.8
02	0.00	15.90	16.80	11.30		14.11	31.9	15.7	24.4
03		2.13	9.14	4.53		7.48	32.7	16.3	24.3
04	15.15	2.39	5.60	4.92		5.10	31.3	16.9	24.1
05	14.03	8.01	3.70	9.19		8.86	31.0	15.9	24.0
06	12.00	4.00	4.19	5.86		5.65	30.0	17.3	24.1
07	0.00	5.10	8.67	5.58		5.42	27.2	17.8	23.9
08	12.00	4.29	4.92	5.22		5.01	31.7	18.0	23.8
09	11.00	4.73	4.78	6.20		5.85	30.5	16.2	24.2
10	10.00	5.08	7.43	6.46		6.60	30.6	17.8	24.1
11	0.00	3.67	5.25	5.14		5.06	29.0	15.5	23.5
12	13.20	4.35	4.92	6.10		6.13	28.3	14.8	23.5
2006 01	14.75	4.56		5.76		5.51	29.5	17.8	23.4
02		3.10	2.50	5.21		4.45	27.6	15.4	23.3
03		1.85	6.00	2.75		2.38	28.3	15.8	23.2
04		5.55		7.32		7.16	27.3	16.2	23.2
05	11.00	7.59	5.83	8.90		8.77	27.3	16.6	23.2
06	11.00	5.00		7.89		7.34	24.2	15.9	23.2
07		5.57		6.40		3.10	25.5	16.8	23.1
08		6.93		6.14		6.07	28.1	16.3	23.1
09		6.93	9.00	8.40		8.26	26.1	15.3	23.1
10		5.00	5.40	6.52		6.20	27.6	16.1	23.0
11	12.00	7.00		6.20		6.30	27.2	14.4	22.9
12	5.80	6.06		6.16		6.12	24.5	15.5	23.0
2007 01		6.30		6.43		6.40	25.3	15.1	23.1
02		5.52		6.13		6.08	21.6	15.7	23.0
03	8.19	5.33	3.94	6.15		6.49	22.5	13.2	22.9
04	6.17	3.00		4.81		4.84	22.3	16.3	22.6
05	7.88	2.00	2.84	4.92		5.30	23.7	14.1	22.4
06	6.30	0.00	4.86	4.16		5.26	21.0	15.5	22.2
07	6.16	0.00		5.02		5.66	22.3	14.5	22.1
08	6.15	5.32	6.22	6.55		6.29	20.0	12.0	21.9
09	6.97	0.00	5.40	6.05		6.46	19.7	12.9	21.6
10	7.58	7.20	6.78	6.48	8.90	7.20	21.3	13.8	21.4
11	7.78	6.95	7.40	8.29	8.50	7.81	22.3	13.4	21.0
12	8.39	6.76	8.11	8.67	8.78	8.25	19.9	14.2	21.7

2 Банкуудын орлого зарлагын тайланд үндэслэн тооцсон хүү

Exchange rates on foreign exchange market

End-of period	USD		EUR	SEK	BGN	HUF	CZK	EGP	JPY	CHF	GBP	HKD	RUB
	end-of period	monthly average											
1993 12	396.51	395.03							3.55	275.01	592.70	51.32	
1994 12	414.09	413.00							4.12	310.99	639.77	53.51	0.12
1995 12	473.62	473.48							4.63	409.53	731.27	61.23	0.10
1996 12	693.51	692.76							5.98	514.28	1172.48	89.64	0.12
1997 12	813.16	811.95							6.28	565.93	1358.14	104.93	0.14
1998 12	902.00	891.86							7.71	656.72	1508.05	116.45	42.65
1999 12	1072.37	1070.39	1086.85						10.42	676.15	1734.56	137.99	39.95
2000 03	1090.00	1091.83	1065.15						10.20	670.60	1736.04	140.01	38.44
06	1065.00	1053.57	997.59						10.18	643.00	1598.62	136.69	37.81
09	1085.62	1084.14	957.25						10.05	628.98	1583.43	139.21	39.01
12	1097.00	1097.00	1006.61						9.74	659.53	1615.11	140.66	39.18
2001 03	1097.00	1098.00	977.04						8.93	623.40	1563.83	140.66	38.12
06	1097.00	1096.00	936.51						8.82	616.15	1551.05	140.65	37.66
09	1099.00	1099.50	1013.20						9.40	689.70	1607.60	140.90	37.30
12	1102.00	1101.29	973.60						8.39	657.30	1598.60	141.30	36.20
2002 03	1104.0	1104.00	971.7	108.00	498.10	4.00	31.30	238.30	8.34	664.70	1574.30	141.50	35.40
06	1105.0	1104.00	1067.4	117.80	548.20	4.30	35.10	239.70	8.96	725.90	1657.30	141.70	35.10
09	1117.0	1116.05	1092.9	119.80	561.40	4.50	36.00	242.80	9.12	747.10	1738.00	143.30	35.20
12	1125.0	1124.09	1169.4	128.00	599.30	5.00	37.30	242.80	9.38	804.00	1804.00	144.30	35.40
2003 03	1140.0	1139.74	1219.3	132.10	625.30	4.90	38.30	198.40	9.48	824.50	1783.70	146.20	36.30
06	1139.0	1133.67	1302.2	142.20	669.20	4.90	41.30	188.90	9.53	844.60	1891.40	146.10	37.60
09	1159.0	1156.64	1321.8	147.90	678.60	5.20	41.80	188.50	10.40	857.80	1914.20	149.60	37.80
12	1168.0	1170.30	1460.2	160.60	746.50	5.60	44.90	188.80	10.92	935.70	2073.40	150.50	39.90
2004 03	1177.0	1177.65	1433.17	154.70	736.55	5.72	43.64	190.15	11.14	917.88	2142.55	150.98	41.31
06	1174.0	1166.95	1430.3	156.50	731.40	5.60	44.80	189.40	10.84	939.40	2146.60	150.50	40.50
09	1202.0	1198.93	1481.7	163.30	757.60	6.00	46.90	194.30	10.83	955.00	2177.90	154.10	41.10
11	1214.0	1210.20	1612.1	180.70	824.30	6.60	52.00	194.70	11.81	1064.50	2298.60	156.10	42.90
12	1209.0	1211.77	1647.4	183.20	842.40	6.70	54.00	197.70	11.65	1067.70	2320.90	155.50	43.40
2005 01	1208.0	1210.90	1574.4	173.30	805.00	6.40	52.20	207.00	11.70	1019.60	2278.40	154.90	43.00
03	1208.0	1208.50	1595.0	175.80	815.60	6.60	53.40	208.30	3.00	1033.60	2307.00	154.90	43.50
03	1192.0	1202.54	1543.0	168.90	788.90	6.20	51.10	205.50	11.12	993.90	2239.20	152.80	42.80
04	1188.0	1186.93	1537.9	167.90	786.30	6.10	50.30	204.70	11.26	999.70	2273.80	152.40	42.70
05	1189.0	1188.00	1489.6	162.10	761.50	5.90	48.70	205.10	11.01	963.70	2167.80	152.90	42.30
06	1193.0	1190.53	1439.2	152.70	735.90	5.80	47.90	205.70	10.84	931.60	2168.90	153.50	41.70
07	1193.0	1193.45	1439.7	152.15	736.10	5.90	47.70	206.70	10.61	920.60	2079.20	153.40	41.60
08	1205.0	1200.07	1471.4	157.71	752.40	6.00	49.80	208.60	10.92	950.40	2161.30	155.10	42.20
09	1215.0	1212.19	1465.3	156.27	749.20	5.90	49.70	211.10	10.76	941.70	2148.80	156.60	42.60
10	1221.0	1218.77	1485.1	156.15	759.40	5.90	50.00	211.80	10.60	961.00	2178.50	157.50	43.00
11	1228.0	1224.40	1452.8	153.40	742.90	5.80	50.10	212.90	10.31	938.60	2119.70	158.40	42.70
12	1221.0	1226.68	1449.1	153.82	741.20	5.80	50.10	212.40	10.37	930.10	2103.70	157.50	42.50
2006 01	1216.0	1220.68	1483.2	160.31	875.40	5.90	52.10	212.10	10.45	957.20	2162.60	156.80	43.40
02	1200.0	1210.21	1423.6	151.18	728.00	5.60	50.30	209.30	10.33	910.30	2092.90	154.70	42.60
03	1174.0	1183.23	1416.5	150.25	724.20	5.30	49.40	204.30	9.99	899.10	2043.20	151.30	42.30
04	1191.0	1186.27	1492.8	160.65	763.30	5.70	52.50	207.00	10.43	945.10	2146.70	153.60	43.70
05	1175.0	1182.55	1510.2	162.44	772.10	5.80	53.50	203.90	10.52	968.70	2203.70	151.50	43.50
06	1172.0	1171.53	1470.7	159.56	752.00	5.20	51.70	203.50	10.06	940.60	2130.80	150.90	43.30
07	1169.0	1170.32	1483.8	160.72	758.60	5.50	52.30	203.20	10.11	943.50	2172.90	150.40	43.50
08	1168.0	1168.35	1498.8	162.11	766.40	5.40	53.10	203.30	9.98	951.50	2219.70	150.20	43.70
09	1168.0	1167.70	1478.7	159.58	756.10	5.40	52.10	203.60	9.89	932.00	2181.40	149.90	43.60
10	1165.0	1166.61	1482.4	160.81	757.90	5.70	52.40	203.10	9.92	932.20	2211.00	149.90	43.60
11	1164.0	1164.10	1533.7	168.77	784.20	6.00	54.80	203.20	10.03	965.20	2270.10	149.70	44.20
12	1165.0	1164.84	1535.3	169.83	785.00	6.10	55.80	204.00	9.81	955.00	2290.90	149.80	44.30
2007 01	1166.0	1165.55	1511.1	167.12	772.60	5.90	53.50	204.50	9.57	930.20	2293.50	149.30	43.90
02	1164.0	1164.64	1538.6	166.17	786.60	6.10	54.10	204.40	9.73	951.10	2288.50	149.00	44.50
03	1165.0	1164.55	1553.4	166.41	794.30	6.20	55.40	204.30	9.92	958.20	2288.20	149.10	44.80
04	1165.0	1165.00	1583.9	173.07	809.70	6.40	56.40	205.20	9.75	964.30	2316.70	148.90	45.30
05	1165.0	1165.00	1566.2	168.47	800.80	6.20	55.20	204.50	9.58	951.40	2305.00	149.30	45.00
06	1163.6	1164.09	1566.5	169.27	800.96	6.34	54.83	204.19	9.46	947.47	2326.85	148.91	45.08
07	1165.1	1164.10	1592.1	172.90	814.09	6.33	56.86	206.17	9.80	965.67	2362.13	148.92	45.53
08	1187.3	1180.38	1621.9	173.00	829.19	6.33	58.67	209.90	10.29	989.36	2393.91	152.17	46.29
09	1184.3	1187.63	1673.7	181.19	855.83	6.69	60.63	211.66	10.25	1010.59	2393.21	152.58	47.42
10	1177.5	1179.71	1696.8	184.86	867.57	6.76	62.95	213.03	10.27	1010.78	2430.09	151.93	47.66
11	1171.8	1173.94	1736.0	185.69	887.41	6.83	65.56	211.86	10.67	1054.13	2428.77	150.48	48.14
12	1169.97	1170.22	1717.16	181.49	877.99	6.78	64.49	211.66	10.33	1032.58	2337.54	149.99	47.68

Exchange rates on foreign exchange market

End-of period	CNY	KRW	CAD	AUD	THB	IDR	MYR	SGD	XAU	XAG	SDR
1993 12			298.28								549.62
1994 12	48.60		295.08								602.19
1995 12	56.94		347.61								708.53
1996 12	83.57	0.82	506.86								999.35
1997 12	98.21	0.49	567.27								1095.06
1998 12	108.96	0.74	582.16	547.97	24.73	0.11	237.68	543.18	257761.60	4446.86	1271.24
1999 12	129.53	0.95	730.75	691.09	28.52	0.15	282.20	642.41	308574.47	5651.60	1473.72
2000 03	131.66	0.98	745.20	666.37	28.89	0.15	287.62	635.05	310541.00	5442.91	1459.80
06	128.67	0.95	717.95	632.34	27.26	0.12	281.02	614.86	301288.50	5261.10	1417.14
09	131.13	0.96	729.56	594.97	25.46	0.12	285.69	621.78	295994.29	5319.54	1407.44
12	132.52	0.89	720.81	608.56	26.10	0.12	288.68	634.84	300358.60	5062.66	1426.96
2001 03	132.53	0.84	700.29	542.41	24.80	0.11	288.68	615.15	287797.95	4771.95	1388.36
06	132.54	0.84	719.79	566.55	24.23	0.10	288.68	602.38	298877.65	4760.98	1370.43
09	132.80	0.85	701.70	539.00	24.90	0.12	289.20	631.90	318847.40	4951.00	1423.20
12	133.10	0.83	691.00	559.70	24.90	0.11	290.00	595.90	306080.50	4937.00	1382.40
2002 03	133.40	0.84	699.60	585.90	25.40	0.11	290.50	603.50	324024.00	4979.00	1384.40
06	133.50	0.91	723.10	634.20	26.30	0.13	290.80	623.20	358075.30	5425.60	1438.70
09	134.90	0.91	708.90	609.40	25.70	0.12	294.30	628.30	357998.50	5048.80	1474.50
12	135.90	0.94	720.60	634.90	26.00	0.13	296.10	647.60	393187.50	5298.80	1519.20
2003 03	137.70	0.91	777.90	683.80	26.60	0.13	300.00	644.30	376542.00	4993.20	1554.90
06	137.60	0.95	840.70	758.50	27.30	0.14	299.70	649.40	391986.90	5159.70	1601.50
09	140.00	1.01	876.00	798.30	29.70	0.14	305.30	674.40	432390.00	5684.00	1666.80
12	141.10	0.98	892.60	872.10	29.50	0.14	307.40	686.40	485537.60	6926.20	1729.00
2004 03	142.20	1.02	898.99	882.22	29.77	0.14	309.74	698.72	492427.38	8945.20	1730.81
06	141.80	1.02	873.00	820.30	28.70	0.12	308.90	685.90	469893.50	6973.60	1725.20
09	145.20	1.04	944.70	861.30	28.90	0.13	316.30	709.60	494442.70	7921.20	1764.30
11	146.70	1.16	1028.70	955.10	30.70	0.13	319.50	741.00	547665.80	9299.20	1843.60
12	146.10	1.16	999.00	936.70	31.00	0.13	318.20	738.40	528151.70	8263.50	1875.00
2005 01	146.00	1.18	974.10	936.50	31.40	0.13	317.90	739.50	515967.00	8202.30	1838.20
02	146.00	1.20	974.50	946.00	31.50	0.13	317.90	740.00	523124.40	8848.60	1848.90
03	144.00	1.17	984.10	920.30	30.30	0.13	313.70	721.70	508090.00	8320.20	1797.60
04	143.50	1.19	949.50	926.50	30.00	0.12	312.60	723.60	513216.00	8244.70	1798.10
05	143.70	1.19	945.80	905.80	29.40	0.13	312.90	716.90	498726.10	8614.30	1765.90
06	144.10	1.16	968.40	910.10	28.90	0.12	313.90	708.70	519104.10	8452.40	1745.60
07	147.10	1.16	965.10	901.50	28.60	0.12	318.20	716.30	506965.50	8416.60	1724.30
08	148.80	1.17	1004.50	902.10	29.20	0.11	319.60	716.00	525741.50	8121.70	1766.40
09	150.10	1.17	1035.10	923.60	29.50	0.12	322.30	719.20	570442.50	8948.50	1760.40
10	151.00	1.17	1042.70	922.20	30.00	0.12	323.50	723.70	578998.20	9566.50	1772.20
11	152.00	1.18	1049.50	909.50	29.80	0.12	324.90	726.00	612925.50	10210.80	1743.20
12	151.30	1.21	1048.30	892.60	29.80	0.12	323.00	733.10	625152.00	10897.40	1751.80
2006 01	150.80	1.25	1057.90	914.10	31.20	0.13	324.20	749.30	678376.00	11606.70	1768.50
02	149.20	1.24	1044.80	886.60	30.60	0.13	323.10	738.80	668040.00	11658.00	1722.70
03	146.30	1.20	1003.20	833.20	30.20	0.13	317.80	724.40	674903.30	13154.70	1688.00
04	148.60	1.26	1060.30	898.80	31.70	0.14	328.60	752.80	759411.40	15125.70	1742.70
05	146.40	1.24	1066.80	897.10	30.80	0.13	324.50	745.20	770095.00	15169.30	1751.60
06	146.50	1.22	1043.40	853.40	30.50	0.13	317.70	733.90	680990.60	12024.70	1722.80
07	146.60	1.23	1030.50	890.30	30.90	0.13	318.70	739.20	739334.10	13314.90	1732.70
08	146.70	1.22	1054.00	890.80	31.10	0.13	317.50	742.10	718728.80	14278.80	1735.90
09	147.70	1.23	1046.90	870.70	31.10	0.13	316.70	736.00	702406.00	13478.70	1728.20
10	147.90	1.23	1039.90	895.60	35.10	0.13	319.90	746.30	703252.30	14148.90	1721.70
11	148.60	1.25	1027.30	910.60	32.20	0.13	320.70	753.10	744843.60	16010.80	1751.10
12	149.20	1.25	1004.20	923.20	32.30	0.13	330.70	760.20	738959.50	15034.30	1751.20
2007 01	149.90	1.24	985.50	901.30	32.20	0.13	332.90	757.60	748921.80	15303.80	1736.70
02	150.30	1.24	1004.10	923.70	32.70	0.13	333.00	762.60	798213.00	17046.80	1744.50
03	150.80	1.24	1004.20	943.10	33.30	0.13	337.30	768.00	774958.00	15535.30	1762.90
04	151.00	1.25	1038.80	961.10	33.40	0.13	340.50	767.30	783520.80	15488.70	1776.50
05	152.30	1.25	1087.90	954.30	33.60	0.13	342.40	761.70	766395.30	15319.80	1766.00
06	152.78	1.26	1008.11	979.43	33.69	0.13	335.49	757.40	750134.08	14353.38	1761.21
07	153.96	1.26	1092.84	993.45	38.99	0.13	336.16	769.27	771782.11	14820.45	1782.56
08	157.26	1.26	1116.97	969.35	34.60	0.13	338.45	779.54	790134.84	14075.20	1819.64
09	157.61	1.29	1180.48	1040.55	34.56	0.13	346.45	793.53	863325.54	15910.53	1838.93
10	157.59	1.30	1232.54	1084.78	34.62	0.13	352.07	811.52	924463.10	16909.40	1847.94
11	158.76	1.26	1186.47	1036.53	36.28	0.12	347.72	809.63	945541.56	16985.53	1863.28
12	160.18	1.25	1194.58	1024.02	34.75	0.12	352.61	808.74	969437.14	17204.41	1833.66

