Session 2.3. IMF-Supported Programs: Case Study of Mongolia

IMF lending in brief

IMF Lending Facilities

- Loans to countries with actual or potential **balance of payments** problems.
- IMF **does not lend for specific projects**, as do development banks
- Typically used to **rebuild reserves, pay for imports, restore conditions for growth**. Can also be used for budget support.
- **Lending instruments** tailored to specific needs—short vs. longer-term problems; immediate financing needs or precautionary; LIC vs other.
- **Non-concessional** lending includes Stand-by Arrangements (SBA), Extended Fund Facility (EFF), and precautionary facilities (FCL, PLL)
- **Concessional** lending facilities for LICs.
- IMF **first in line** for repayment

Trivia quiz

Which country was the first recipient of IMF financing?

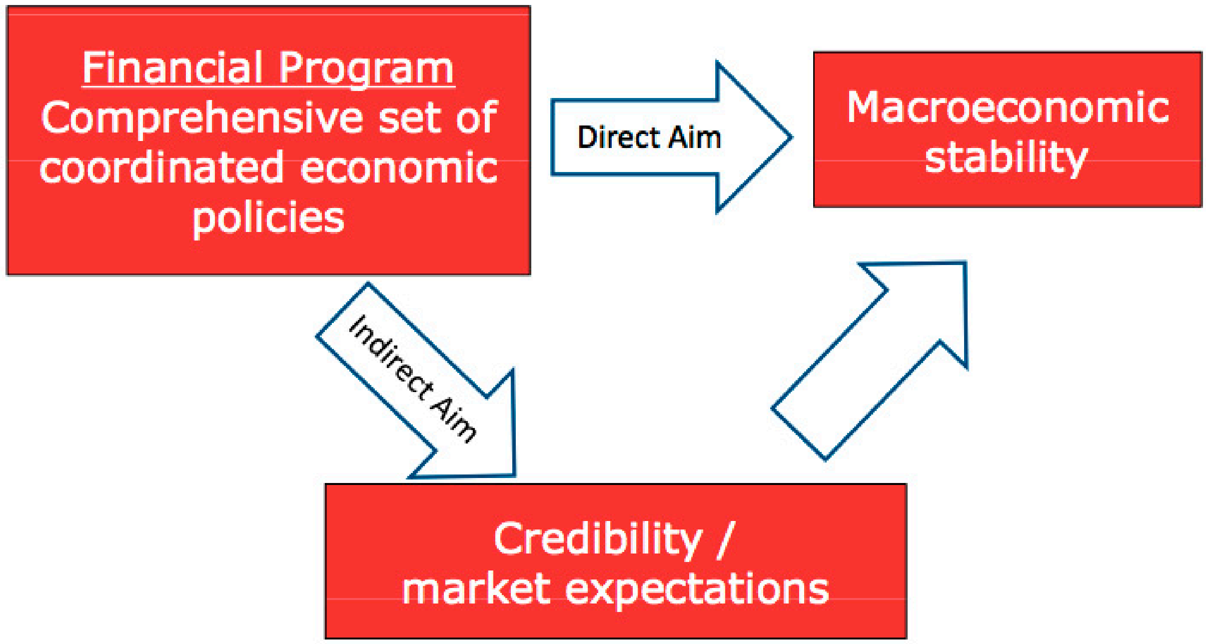
- France
- Argentina
- United Kingdom
- Ghana

Answer: France, in May 1947

IMF lending at a glance

FCL PLL SBA/EFF Concessional (ECF, SCF, RCF)

Aims of a Financial Program



The process

- **Inception.** Member country makes a ***request*** for financial assistance
- **Blueprint.** Area department staff assess underlying problems and outline key elements of a program in a **briefing paper**
- **Internal review process.** Review departments and management sign off.
- **Negotiation.** Agreed program—policies, financing and conditions— a compromise between staff and authorities. Reflected in country memorandum (MEP) and specific targets and policies
- **Board approval.** Based on **Staff Report** approved by Management
- **Monitoring.** Regular reviews based on conditions and broader assessment of policies. Time for program adjustments to be made.

These guys again….

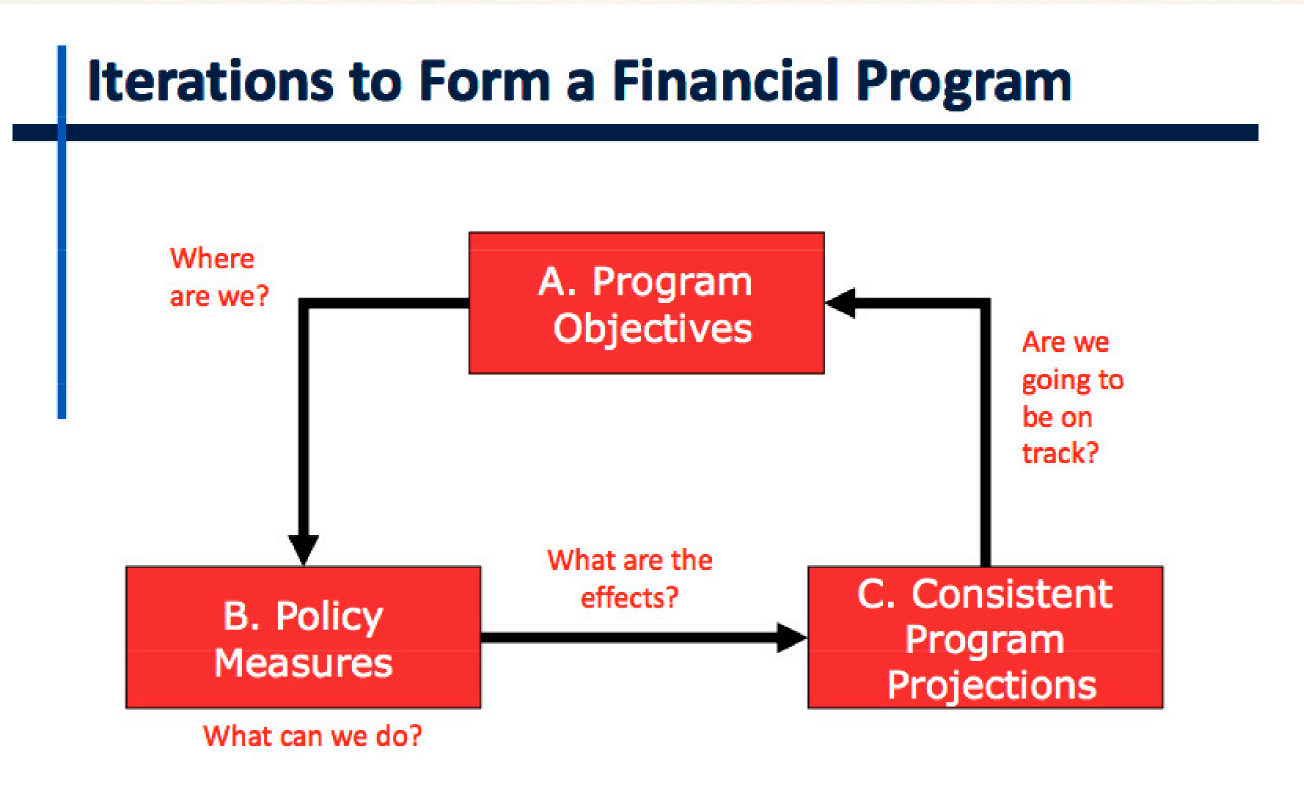
Programs: Typical starting points

- **Fiscal crisis**: Unsustainable debt and/or financing needs
  - Lack of **access** to financial markets
- **External crisis**: Low/rapidly declining international reserves
  - Incompatible macro and exchange rate policies
  - **Sudden stop**/reversal of capital inflows
- **Financial sector crisis:** Balance sheet vulnerabilities
- **Limited policy options:** Countercyclical monetary/fiscal policy not feasible, tradeoff between XR and interest rate

Conditionality

- Countries agree to follow policies to **overcome problems** that led it to seek financial assistance.
- Conditions must be **macro-critical**
- Conditions also aim to **ensure repayment**—revolving nature of Fund.
- Compliance ensured via **reviews** and evaluated on basis of prior actions, quantitative criteria and structural benchmarks.
- **Quantitative targets (PCs)** typically include measures of fiscal deficit, domestic credit (NDA) by central bank.
- Number and scope of structural **conditions reduced** since 2009. Structural PCs eliminated in 2009
- **Waivers** and **adjustments** common

A flexible framework



How much financing? Quotas and access

Annual and Cumulative Normal Access Limits by Facility
as a percent of quota

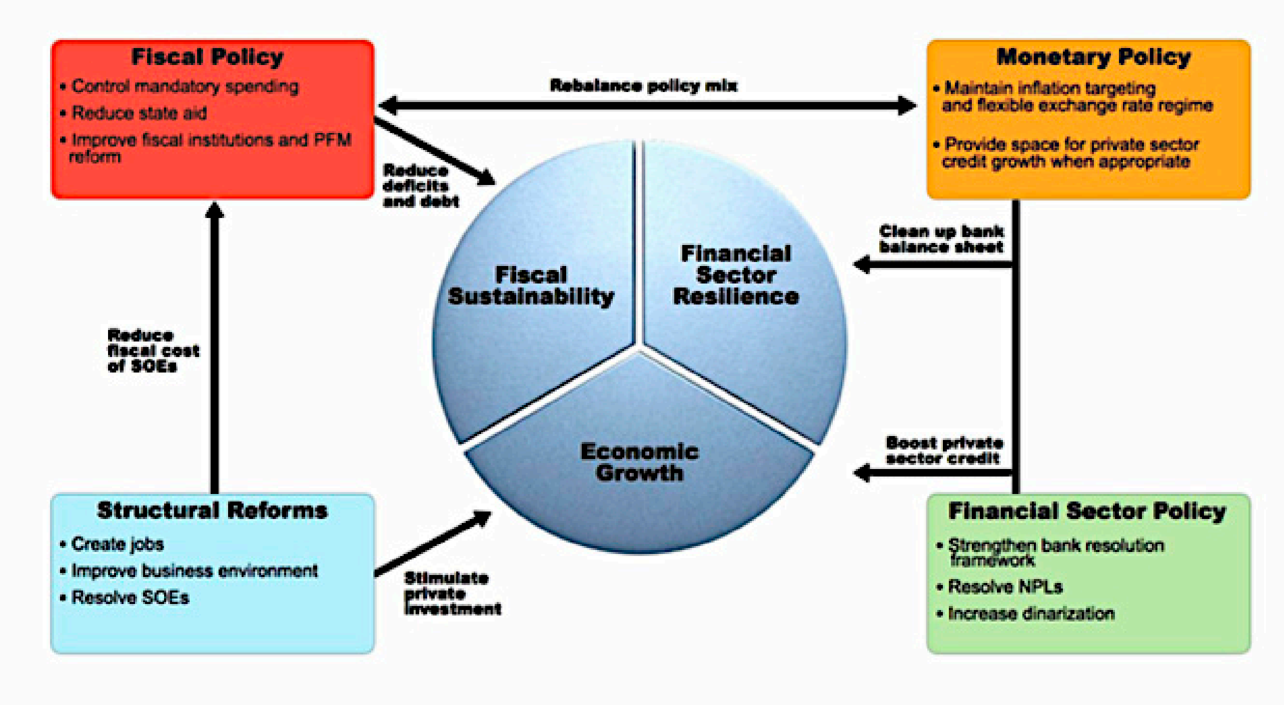
	Current Limits		Previous Limits	
Non-Concessional	Annual	Cumulative	Annual	Cumulative
SBA/EFF	145	435	200	600
RFI	37.5	75	75	150
PLL	200	500	500	1000
Concessional				
SCF/ECF	75	225	150	450
RCF				
Normal	18.75	75	37.5	150
Shocks	37.5	75	75	150

What's in a program staff report?

- **Analysis** of the country economy and imbalances
- **Case for program**: Type, length, access, phasing
- **Policy content** of program—overall strategy and individual policies
- **Letter of intent/Memorandum of Economic Policies** from country authorities
- **Conditionality**: Performance criteria, prior actions, benchmarks

Putting it all together

From Serbia 2014 Program Staff Report

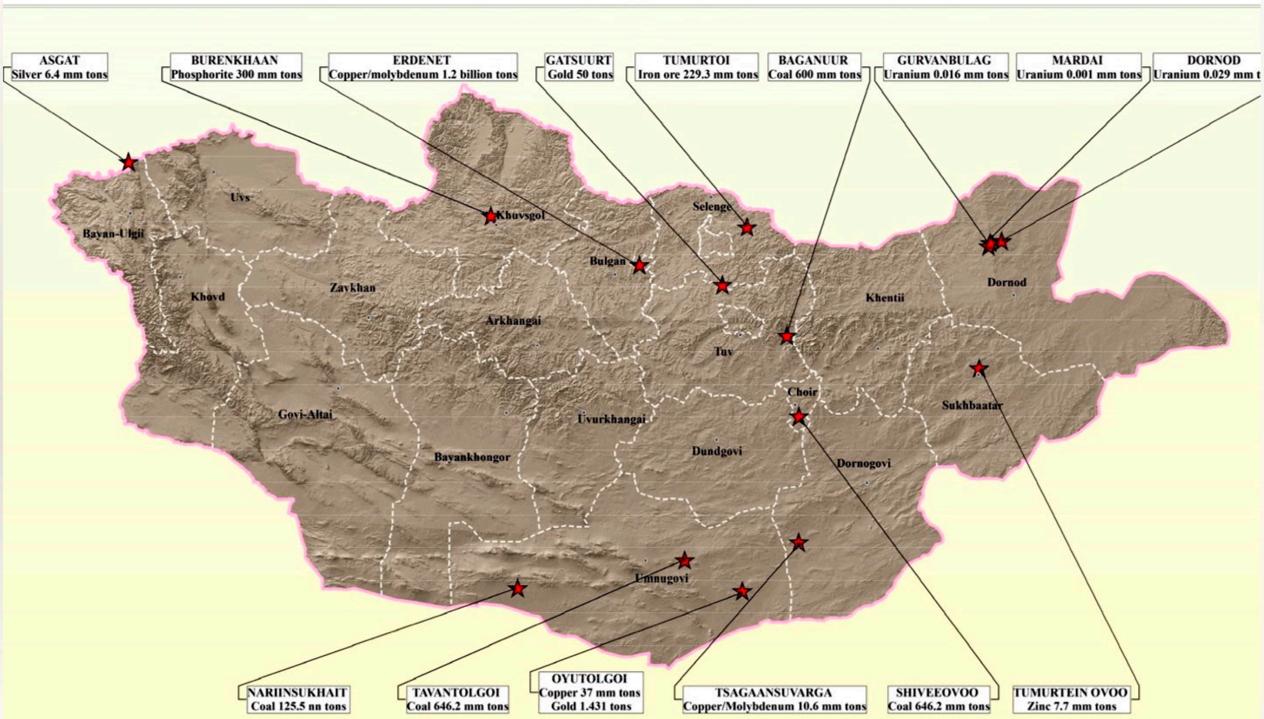


Case study: Mongolia

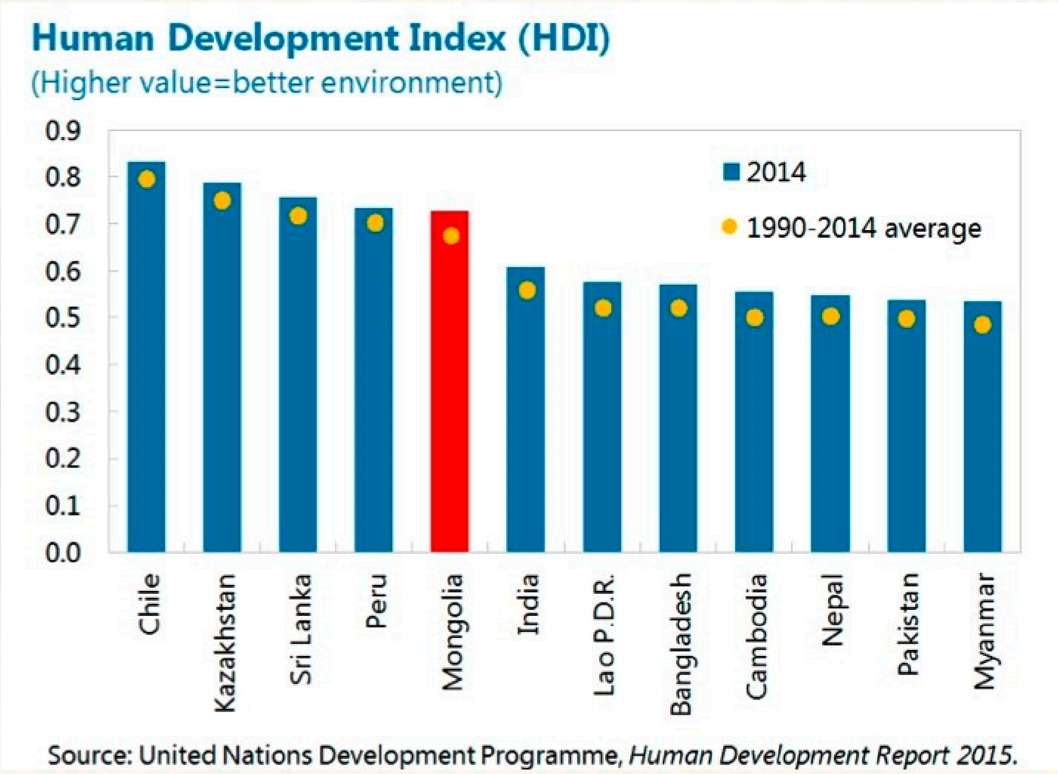
The economic context: What were the problems?

Resource rich but not diversified

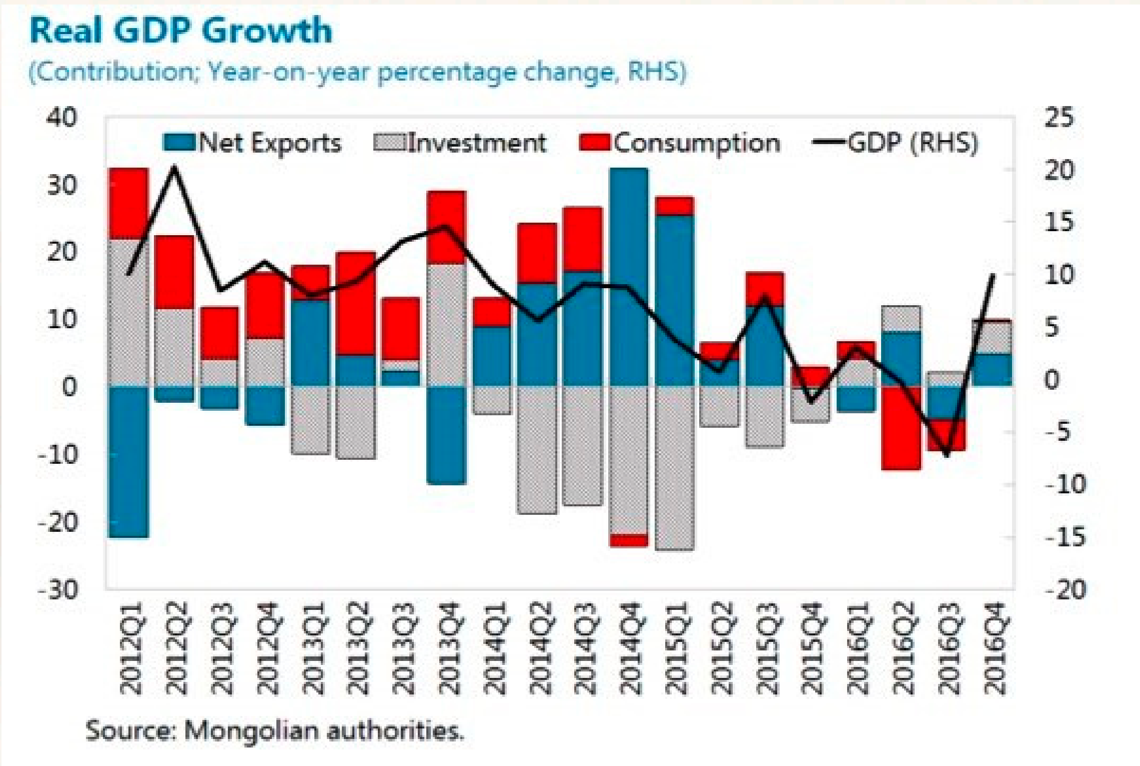
Figure 1. Known Mineral Deposits in Mongolia



Impressive progress…at risk?



Boom and bust



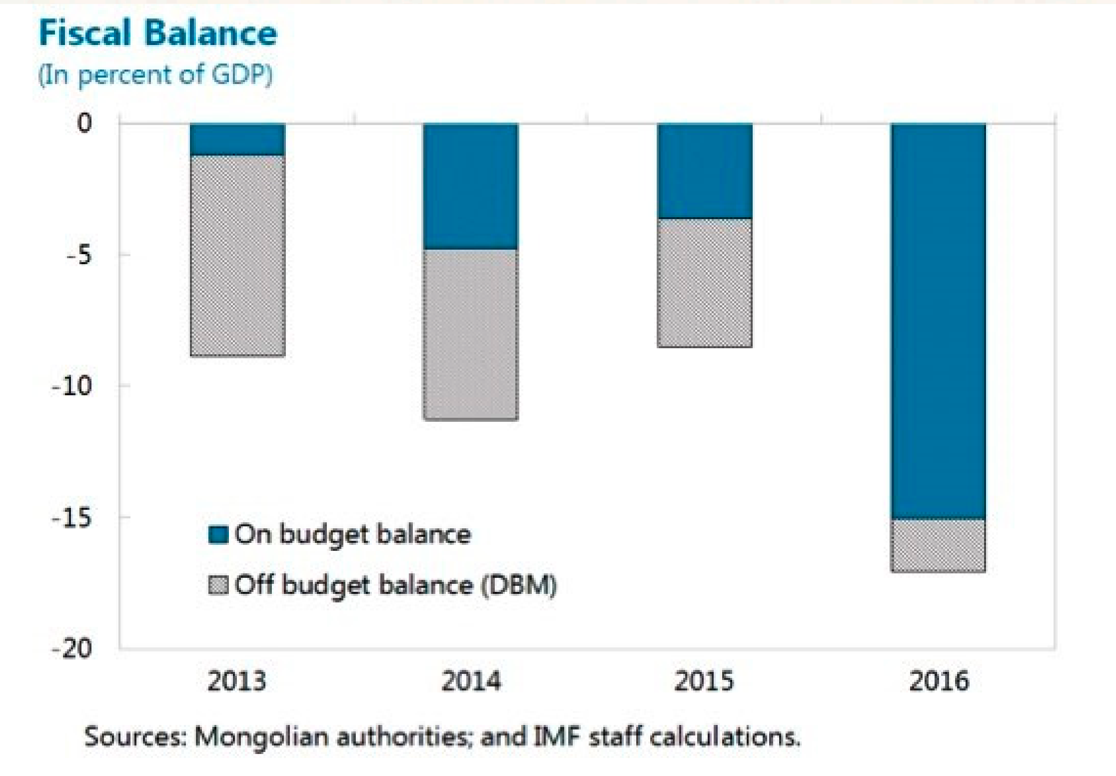
Expansionary policies to cushion recession

- Slower growth led to lower revenue
- Higher discretionary spending and interest spending
- Cyclically-adjusted deficit up sharply

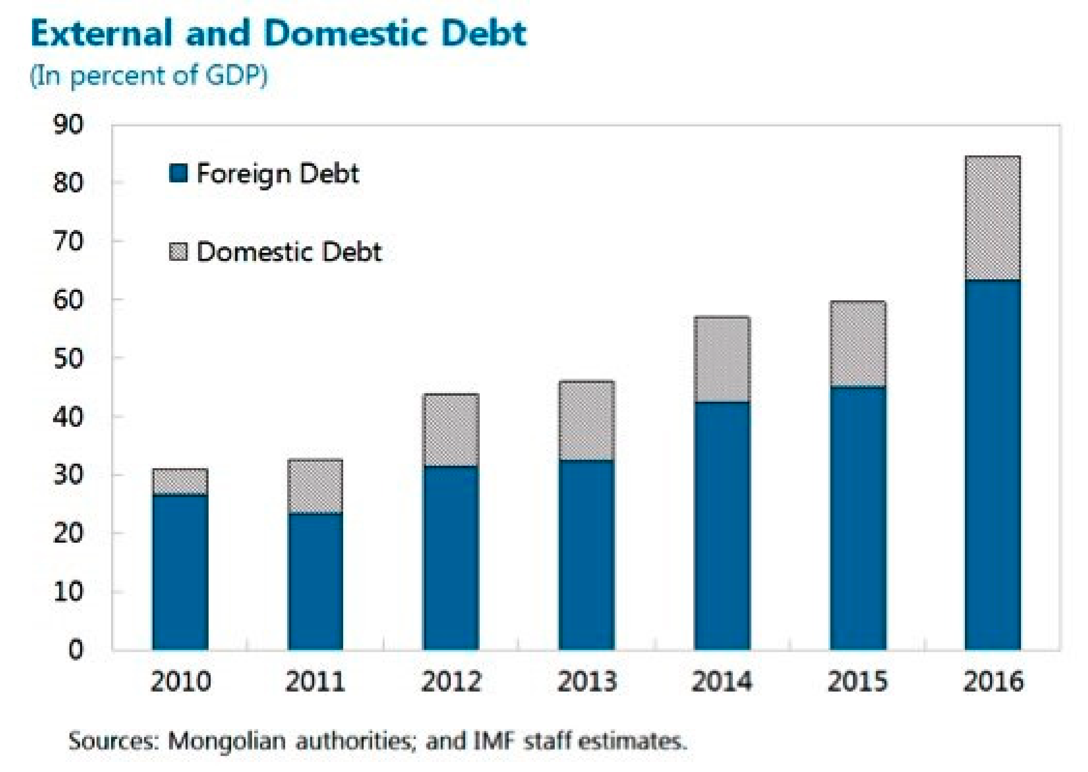
Fiscal Accounts, 2015-26 (Percent of GDP)

	2011-15 avg.	2015	2016
Revenue	29.6	25.1	23.7
Expenditure	37.9	33.6	40.7
Current	24.7	24.4	27.9
Capital	13.3	9.2	12.8
Overall balance	-8.4	-8.5	-17.0
General government debt			
Nominal	...	59.5	87.6
Present value	...	55.0	69.1
Memorandum items:			
Primary expenditure	36.4	30.7	36.8
pre-election programs	...	...	2.3
judicial settlement	...	...	0.6
arrears clearance	...	...	1.2
underlying primary expenditure	36.4	30.7	32.7
Primary balance	-6.8	-5.6	-13.1
P.b. excluding one-off spending	-6.8	-5.6	-9.0
P.b. excluding one-off spending and rev. shortfall rel. to 2011-15 avg.	-6.8	-1.2	-3.1
Cyclically adjusted primary balance	-7.6	-6.5	-12.8
CAPB excluding one-off spending	-7.6	-6.5	-8.7
Nonmineral primary balance	-12.2	-10.0	-15.6

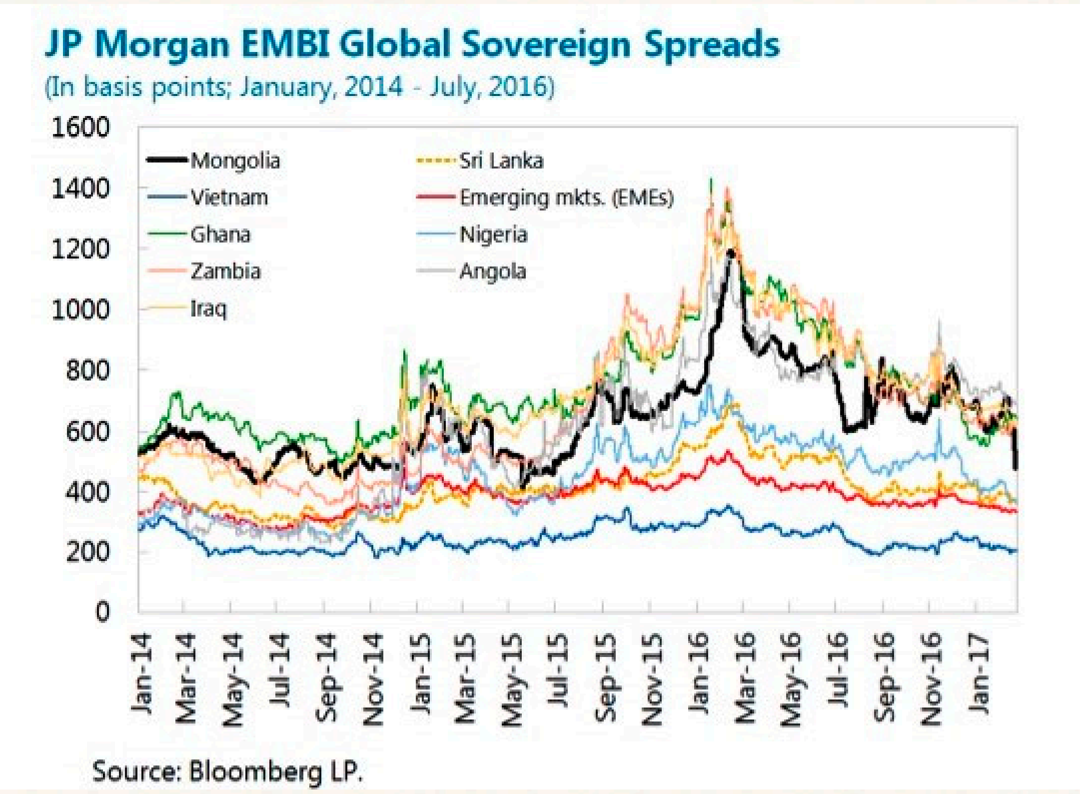
Fiscal deterioration



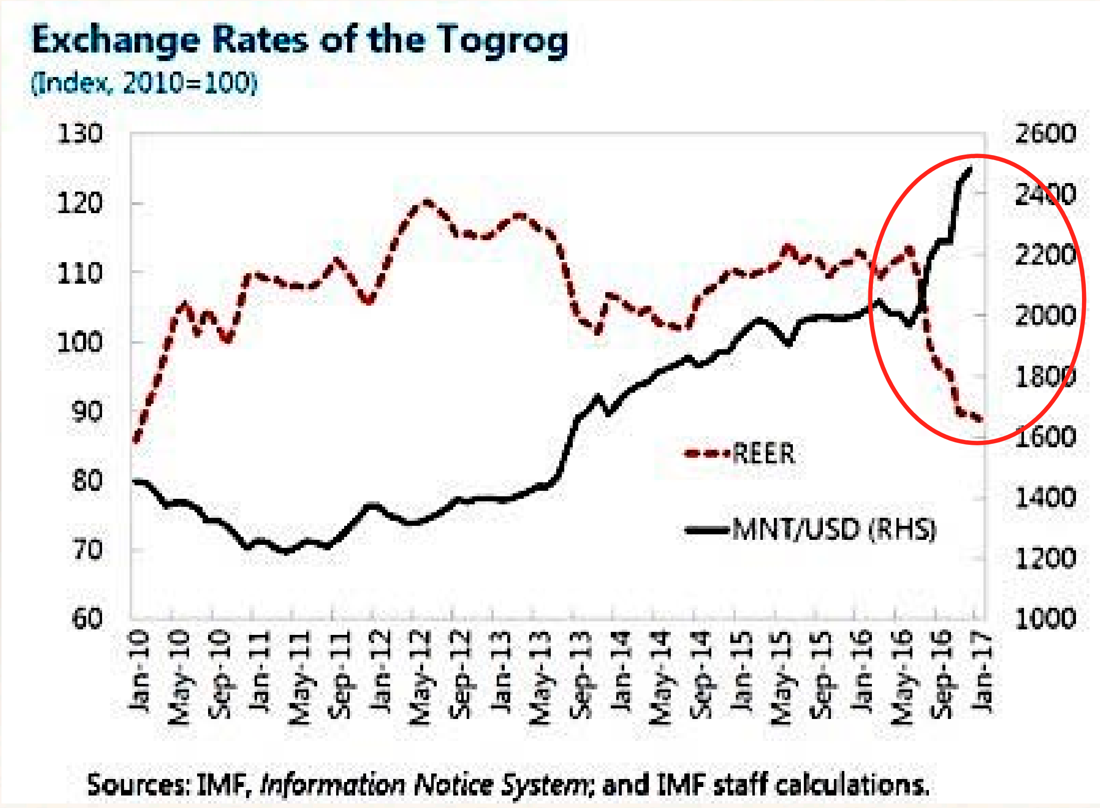
Unsustainable debt path



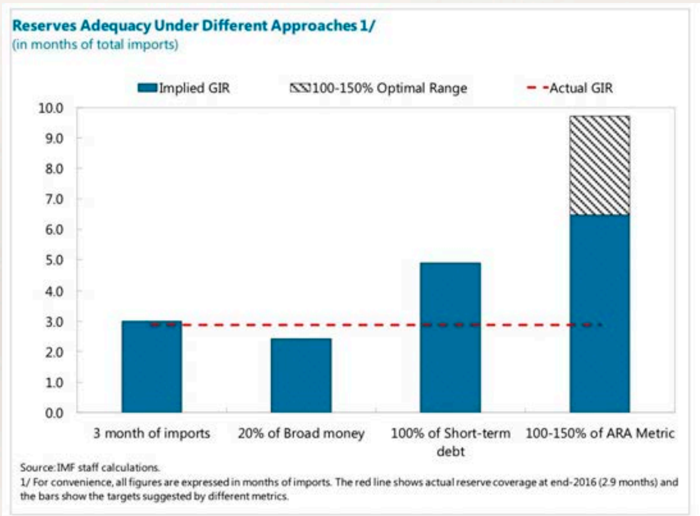
Rising sovereign spreads



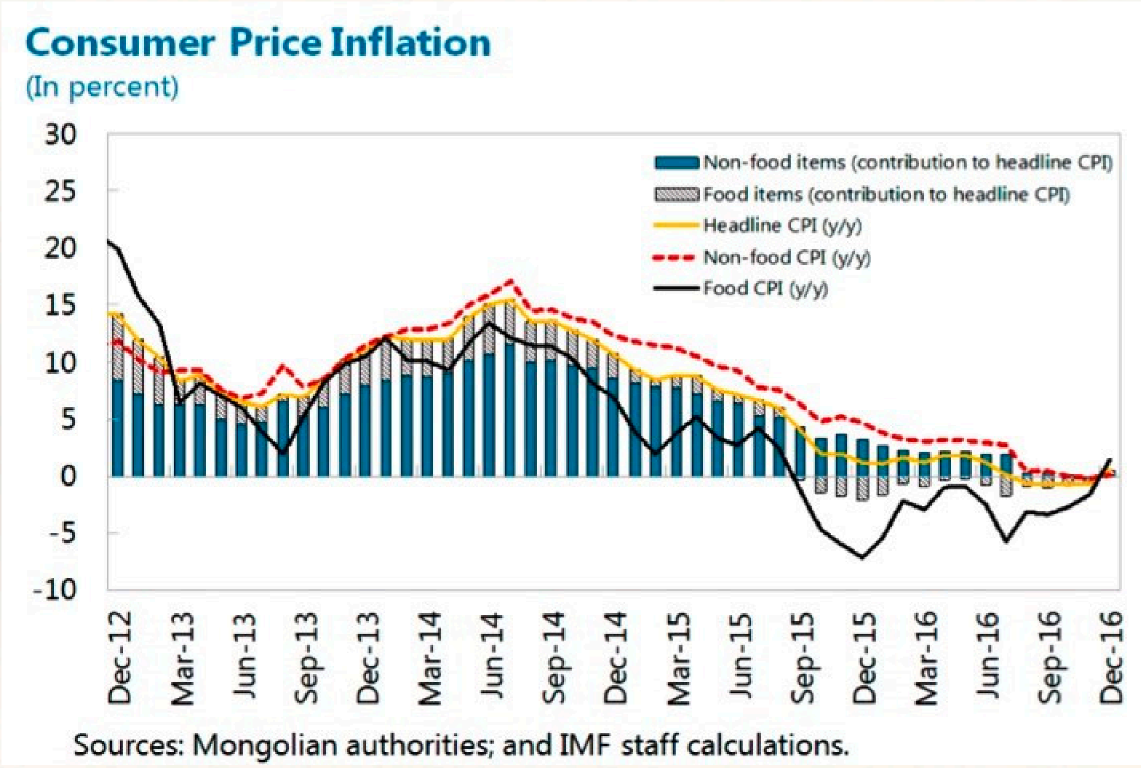
Currency under pressure



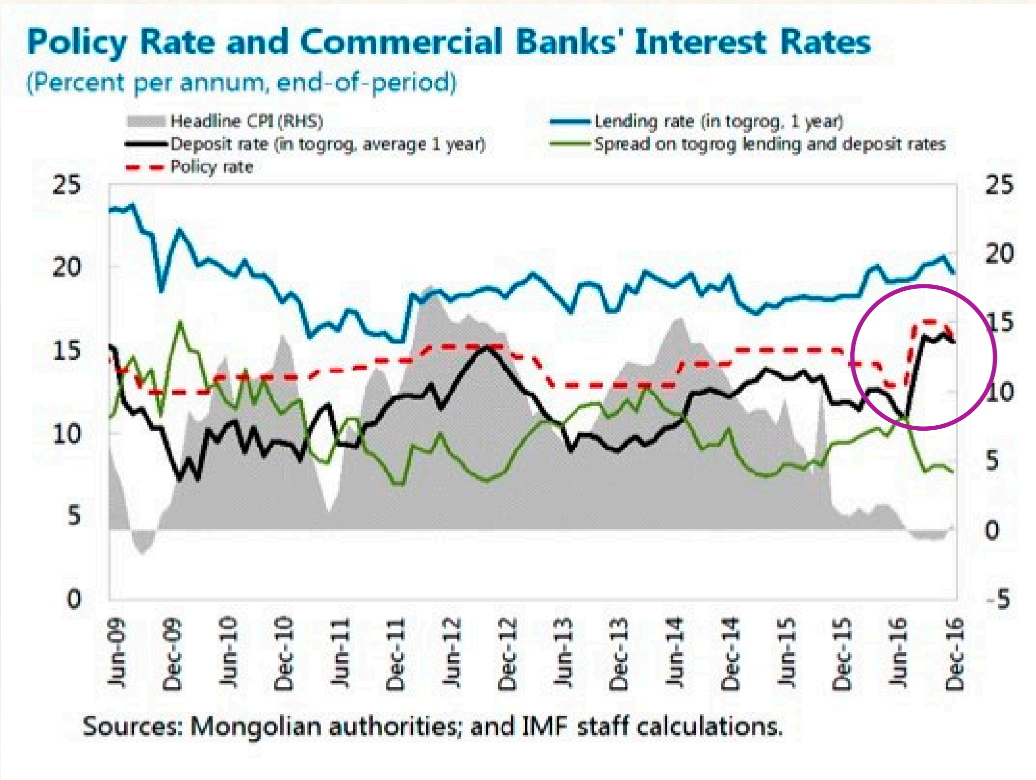
Enough reserves?



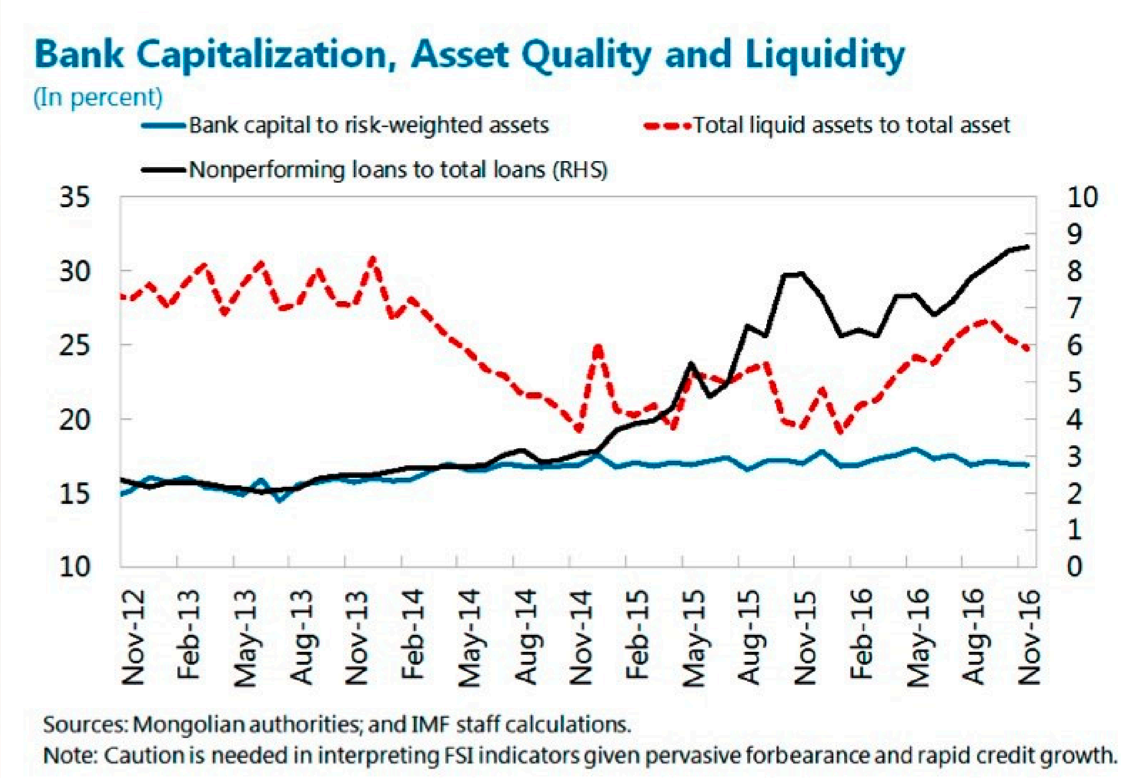
Emerging deflation



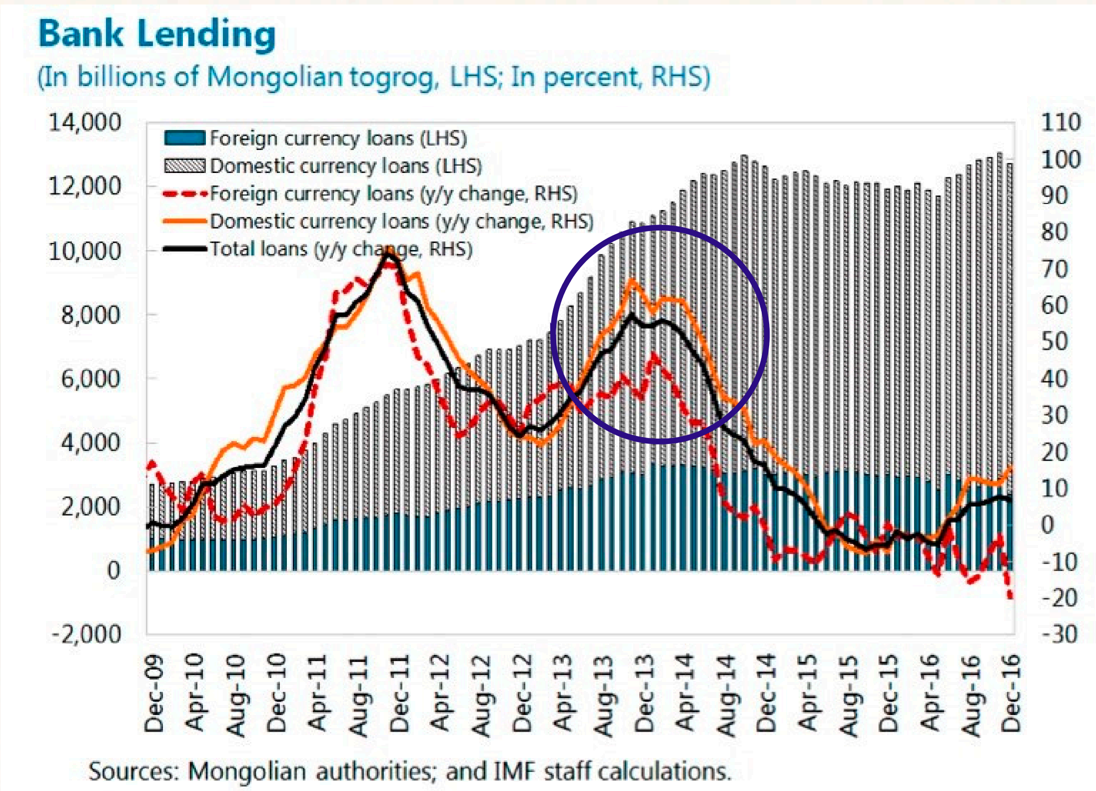
And high real interest rates



Bank challenges: Rising bad loans



Lending weak despite subsidies



Program design

Key elements of the program

- **Three-year** arrangement (EFF)
- **Access** of 314 million (US$434 million) or 435 percent of quota (max under normal access)
- Substantial concessional lending from **financing partners** and private sector creditor strategy
- Large **fiscal adjustment** to restore debt sustainability and stabilize external position
- **Fiscal reforms** to ensure adjustment durable. Steps to strengthen **safety net** and protect the most vulnerable
- **Market-determined exchange rate** and prudent monetary policy—**reserves buildup.**
- Measures to **strengthen banking** regulation and BoM governance, recapitalize banks
- **Structural reform** to achieve sustained and inclusive growth— diversification, better business environment, increase FDI

As described here…

Appendix I. Letter of Intent

April 13, 2017
Ulaanbaatar

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

Mongolia is blessed with vast mineral resources, strong potential in agriculture and tourism, a talented workforce, and a vibrant democracy. Our long-run future is undoubtedly bright, but in recent years, we have been hit hard by the sharp decline of commodity prices and a collapse in foreign direct investment (FDI). Efforts to buffer the economy from these shocks succeeded in maintaining high growth for a while, but at the cost of higher public debt, a weaker external position, and declining asset quality at banks. As a result, market confidence waned and growth declined, leading to widespread hardship among the population and serious economic vulnerabilities.

We believe that the policies set forth in the MEFP are adequate to achieve the objectives of the program but are prepared to take further measures if necessary. We will consult with IMF staff on the implementation of the policies contained in the MEFP, and in advance of any revisions to these policies, in accordance with the IMF's policies on such consultation.

In keeping with our policy of transparency, we intend to make public the content of the IMF staff report, including this letter, the MEFP, the TMU, and the informational annex of the staff report. We therefore authorize IMF staff to publish these documents on the IMF website once the Executive Board has approved this EFF.

Sincerely yours,

/s/ /s/

B. Choijilsuren
Minister of Finance

N. Bayartsaikhan
Governor, Bank of Mongolia

Attachment I. Memorandum of Economic and Financial Policies
April 13, 2017

This Memorandum of Economic and Financial Policies (MEFP) provides context regarding Mongolia's economy, describes recent developments and the outlook, and then presents our program of policy adjustment and structural reforms, to be supported by an extended arrangement under the IMF's Extended Fund Facility (EFF).

I. Context

1. **Mongolia has strong economic potential but faces a number of difficulties.** We are blessed with large mineral reserves that are under active development, a well-educated population, and opportunities for economic diversification and greater regional integration in Asia. But when our new government took office in June, we inherited a very challenging economic situation, with stagnant growth, a weak balance of payments position, a large fiscal deficit and rising debt, and increasing vulnerabilities in the banking system.

2. **These difficulties were partly caused by major external shocks.** FDI fell from $4½ billion in 2011 (more than 40 percent of GDP) to nearly zero in 2015, reflecting the end of the first phase of the Oyu Tolgoi (OT) copper and gold mine, a dispute over the second phase of that project, and adverse changes to the investment regime, and coal and copper export prices fell sharply. The effect was to drive export earnings and fiscal revenues sharply downward.

3. **But policy errors also contributed.** Mongolia failed to build up buffers during good times. And when conditions worsened, stimulus policies temporarily helped maintain high growth while exacerbating economic vulnerabilities by building up public debt, weakening the BOP further, undermining bank asset quality, and damaging investor confidence:

- **Fiscal policy.** For several years up to 2015, quasifiscal spending at the Development Bank of Mongolia (DBM) pushed the consolidated deficit up to around 10 percent of GDP. In 2016, spending in the run-up to the elections helped push the annual deficit (as defined by the IMF) up even further, to 17 percent of GDP.
- **Monetary and exchange rate policy.** The BOM implemented expansionary policies during 2012–14: the policy rate was cut substantially, and several new quasifiscal lending programs injected about 25 percent of GDP in new liquidity into the economy. These policies fostered a credit boom and fueled imports. While the togrog was allowed to weaken, there were extended periods during which the Bank of Mongolia (BOM) attempted to defend the currency, and reserves, which stood at over $4 billion in 2012, fell to $1.3 billion by end-2015. Depreciation also led to an increase in inflation, which later diminished as the economy began to slump.
- **Financial sector policies.** Loans funded by the BOM's easing programs were zero-risk-weighted and exempted from limits on large exposures and industry concentration. In general, the supervisory framework was inadequate, with limited resources, frequent

Program conditionality

Table A1. Mongolia: Quantitative Performance Criteria

	4/30/2017	6/30/2017	9/30/2017	12/31/2017	3/30/2018 Indicative targets
Performance Criteria 1/ 2/					
Change in net international reserves (NIR) of the Bank of Mongolia (BOM) (floor, cumulative, change in eop stock, in million US$ at program exchange rate)	-250	0	100	250	550
Net domestic assets (NDA) of the BOM (ceiling, eop stock, in billion togrog at program exchange rate)	5,400	5,100	4,900	4,600	4,000
Primary balance of the general government (floor, cumulative since the beginning of the fiscal year, in billion togrog)	-650	-850	-1,050	-1,500	-350
New nonconcessional external debt maturing in one year or more, contracted and/or guaranteed by the government or the BOM (ceiling, eop stock, in million US$).	600	1,800	1,800	1,800	1,800
Stock of guarantees on external debt extended by the government or BOM (ceiling, eop stock, in million US$)	850	850	850	750	750
Indicative Targets (IT)					
Reserve money (ceiling, in billion togrog)	3,400	3,500	3,900	4,000	4,200
Continuous Performance Criteria					
New nonconcessional external debt maturing in less than one year, contracted and/or guaranteed by the government or the BOM (ceiling, eop stock, in million US$).	0	0	0	0	0
Accumulation of new external payment arrears (ceiling, eop, in million US$).	0	0	0	0	0

Table A2. Mongolia: Proposed Prior Actions and Structural Benchmarks

	Completion Date
Prior actions (to be completed before Board approval of the new arrangement)	
Fiscal	
Passage of a 2017 supplementary budget and a medium-term budget framework (2018-2020) consistent with program targets, and passage of all fiscal measures needed to support 2017 targets	
Banking	
BOM to launch the procurement procedure for AQRs by internationally reputable firms on banks based on terms of reference developed in consultation with IMF staff.	
Monetary	
Authorities to communicate to staff the discontinuation of any net BOM financing of the mortgage program as well as any quasi- fiscal lending e.g. to companies	
Structural benchmarks	
Fiscal	end-August 2017
Establishment of a working group to review the tax structure and make recommendations to improve efficiency and equity including review of the investment, VAT, personal income tax, and economic entity tax laws with a view to enhance revenue, reduce complexity, and introduce progressivity in personal income tax, in consultation with IMF staff.	
Finalization and commencement of implementation by the General Department of Taxation (GDT) and tax offices of compliance improvement strategies for large, medium, small, and micro businesses that will include baseline performance measures and an automated monitoring and evaluation framework	end-April 2017
Submission to Parliament of a revised general taxation law that consolidates the common administrative provisions that apply to all tax types, promotes consistent administration of the tax system, and achieves an appropriate balance between taxpayers' interest and the powers of the tax authorities	end-October 2017
Submission to Parliament of legislation to create a simplified tax regime for micro and small businesses within the scope of IMF technical assistance recommendations.	end-October 2017
Passage of a 2018 budget in line with the program's fiscal path.	end-November 2017
Revision of the relevant budget laws and introduction of a new law to establish a fiscal council, in line with international best practice and IMF advice.	end-December 2017
Revision of the Integrated Budget Law and other relevant laws to restrict, effective 2018 onward, Parliament from increasing the aggregate expenditure envelope reflected in the budget presented by the Minister of Finance (including through a PAYGO provision).	end-November 2017
Submission of the tax working group's report to the Ministry of Finance.	end-December 2017

Table A2. Mongolia: Proposed Prior Actions and Structural Benchmarks (concluded)

Social protection	
The Child Money Program will be targeted to the poorest 40 percent of Mongolian households and the savings redirected toward the better-targeted Food Stamps program.	end-December 2017
Monetary	
Submission to Parliament of a new Bank of Mongolia Law, to clarify the BOM's mandate, strengthen autonomy and governance, and improve operations, in consultation with IMF staff.	end-November 2017
Adoption of the new Bank of Mongolia Law.	end-March 2018
Banking	
Amendment of the Banking Law and Bank of Mongolia Law and related secondary legislation, guided by IMF staff, to 1. improve the early intervention framework 2. bring the bank resolution legislation, funding and cooperation framework up to best international standards in cooperation with MoF, DICOM 3. ensure that BOM has adequate powers to request from banks additional capital and provisioning to enhance financial strength or to absorb existing and estimated future credit losses, including based on the diagnostic studies and the analysis of the business plans 4. introduce power for BOM to apply levies on banks to cover the cost of supervision incl. AQRs 5. strengthen shareholders', board members', and senior management's fit and proper requirements 6. upgrade rules on banks' related party exposure and final beneficial owners	end-November 2017
Amendment of DICOM law to bring it in line with IADI Core Principles for Effective Deposit Insurance Systems.	end-November 2017
Financial Stability Board (FSB) approval of an NPL resolution strategy. In consultation with other relevant ministries, the FSB will first establish a working group, and that group will: (i) identify and analyze impediments to debt resolution, in particular related to insolvency and enforcement laws, taxation issues, and legal and regulatory obstacles to NPL sales and outsourcing; and (ii) develop an NPL resolution strategy including milestones and a timetable for removal of identified impediments.	end-January 2018
BOM to carry out a review of related party exposures based on improved legislation	end-September 2018
BOM to adopt an amendment to its regulation on asset classification and provisioning in consultation with IMF staff	end-June 2017
Enact a law on the use of public funds	end-December 2017

Mongolia: Projections under Program Policies

- Slightly negative growth this year, rising sharply from 2019
- Primary surplus by 2020
- Public debt peaks in 2018
- MT inflation at 6.5 percent
- Rising credit growth
- Rising reserves coverage

Table 1. Mongolia: Selected Economic and Financial Indicators, 2013-22

	2013	2014	2015	2016 Est.	2017	2018	2019	2020	2021	2022
	(In percent of GDP, unless otherwise indicated)									
Real sector										
Nominal GDP (in billions of togrogs)	19,174	22,227	23,134	23,886	26,048	27,688	31,390	35,023	39,306	45,181
Real GDP growth (percent change)	11.6	7.9	2.4	1.0	-0.2	1.8	8.1	5.3	6.1	8.5
Mineral real GDP growth	18.5	19.4	14.1	0.7	0.5	4.5	13.6	15.1	13.7	18.9
Non-mineral real GDP growth	10.0	5.0	-1.0	1.1	-0.5	0.9	6.1	1.7	2.9	3.7
GDP deflator (percent change)	2.9	7.4	1.7	2.3	9.3	4.4	4.9	5.9	5.8	5.9
Consumer prices	11.2	10.7	1.1	0.5	6.1	6.1	6.9	6.5	6.5	6.5
(End-period; percent change)										
Gross national saving	26.3	23.4	21.1	26.5	30.3	30.1	32.4	36.4	38.2	41.4
Public	7.4	3.7	0.4	-4.6	-3.4	-1.5	1.3	3.7	5.5	6.1
Private	18.9	19.7	20.7	31.1	33.8	31.6	31.2	32.7	32.7	35.3
Gross capital formation	51.7	34.9	25.1	30.6	34.8	39.6	46.1	46.9	46.6	47.6
Public	16.4	15.0	9.2	12.8	7.7	7.5	7.6	8.0	8.0	8.0
Private	35.3	19.9	15.9	17.8	27.1	32.2	38.5	38.9	38.6	39.6
General government accounts										
Total revenue and grants	31.2	27.8	25.1	23.7	24.7	26.3	26.8	27.0	27.1	27.2
Total expenditure and net lending 1/	40.1	39.1	33.6	40.7	35.3	34.8	32.7	31.0	29.1	28.7
Overall balance (IMF definition) 2/	-8.9	-11.3	-8.5	-17.0	-10.6	-8.5	-5.9	-4.0	-2.0	-1.5
Primary balance (IMF definition)	-7.5	-8.8	-5.6	-13.1	-5.5	-3.1	-1.0	0.3	1.5	1.6
	(In percent of GDP, unless indicated otherwise)									
Monetary sector										
Credit growth (percent change)	57.9	23.5	0.5	8.5	9.0	10.3	10.6	11.1	11.9	15.6
Reserve money growth (percent change)	54.0	2.7	-28.2	24.6	21.8	19.3	16.0	15.3	15.1	16.1
Balance of payments										
Current account balance	-25.4	-11.5	-4.0	-4.1	-4.4	-9.5	-13.6	-10.6	-8.4	-6.2
Gross official reserves (in millions of US$) 3/	2,242	1,648	1,324	1,297	1,692	2,515	3,583	4,032	4,257	4,304
(In months of imports)	3.9	4.0	2.9	2.9	3.4	4.4	6.1	6.5	6.8	7.2
Debt indicators 4/										
General government debt	46.0	57.1	59.5	87.6	94.9	101.3	100.0	97.5	92.3	84.7
Domestic	13.5	14.7	14.6	19.8	21.4	19.4	15.1	11.7	12.9	11.6
External	32.5	42.3	44.9	67.8	73.4	81.9	84.9	85.7	79.5	73.1
General government debt in NPV terms	...	...	55.0	69.1	86.3	89.6	86.5	84.0	79.6	74.3
GFN	9.8	13.3	10.7	18.1	22.4	21.5	18.5	13.8	13.9	17.5
Memorandum items:										
Copper prices (US$ per ton)	7331	6,863	5,510	4,868	5,722	5,733	5,721	5,708	5,704	5,704
Gold prices (US$ per ounce)	1411	1,266	1,160	1,248	1,212	1,225	1,251	1,274	1,299	1,325

Sources: Mongolian authorities; and Fund staff projections.
1/ Includes DBM spending.
2/ Excludes privatization receipts; includes DBM commercial spending and from 2017 onwards mortgage interest financed mortgage spending.
3/ Gross official reserves includes drawings from swap line.
4/ General government debt data excludes SOEs debt and central bank's liabilities from PBOC swap line.

Ambitious upfront fiscal adjustment

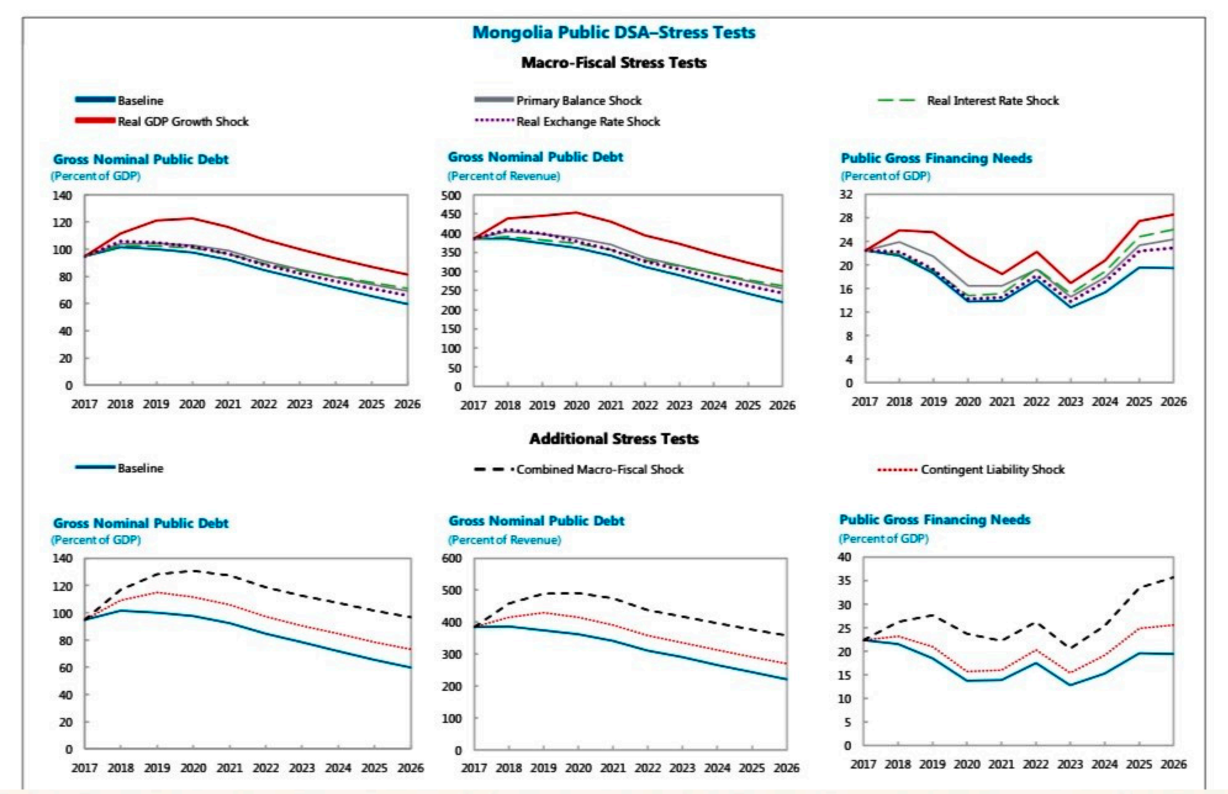
Fiscal Measures	
	Estimated Savings 2017-2019 (percent of GDP)
Expenditure measures	**9.0**
Reducing capital spending	5.2
Streamlining and better targeting of social transfers and reforming public pensions	1.5
Containing public wage bill	1.4
Reducing expenditure on goods and services	0.9
Revenue measures	**2.2**
Improving revenue administration	0.1
Partly reversing cut in petroleum excise	0.8
Introducing a progressive income tax	0.2
Raising social security contribution	0.6
Increasing excise on vehicles, alcohol and tobacco	0.3
Eliminating the threshold for withholding tax on interest earnings	0.2
Increasing customs duty on tobacco	0.1
Total	**11.2**

Table 2b. Mongolia: Summary Operations of the General Government, 2014–22

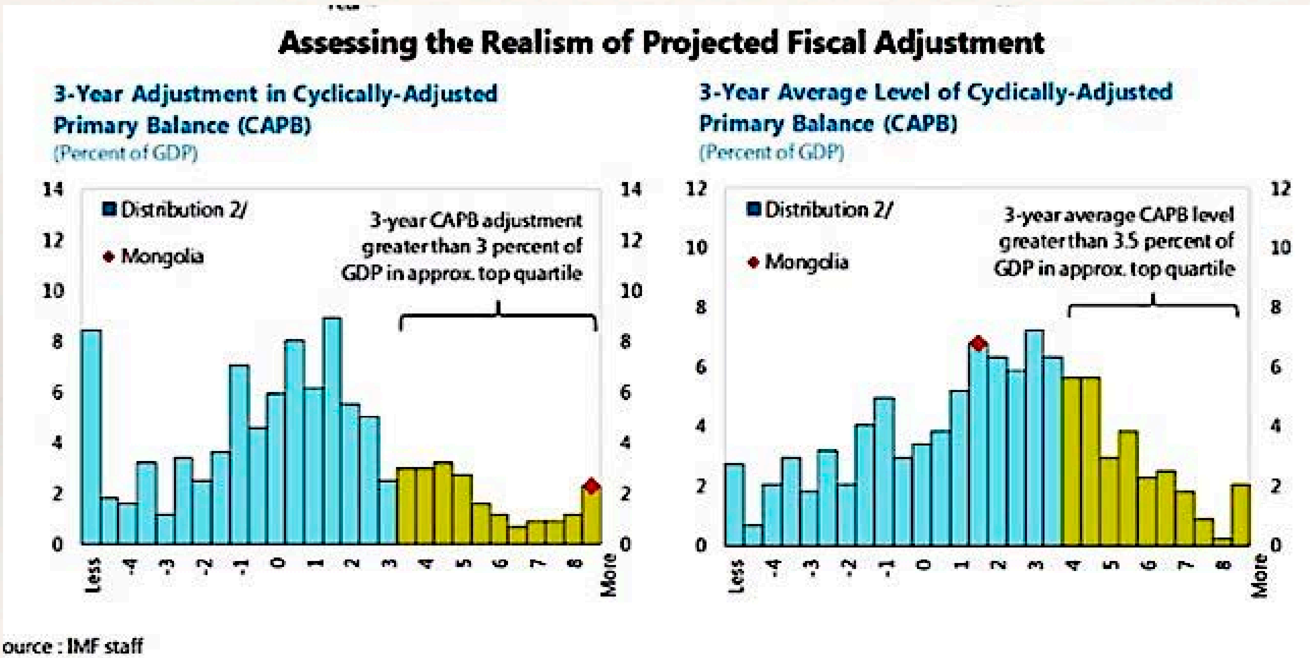
	2014	2015	2016	2017		2018	2019	2020	2021	2022
	Actual	Actual	Prelim	Budget	Proj.					
				(In percent of GDP)						
Total revenue and grants 1/	27.8	25.1	23.7	22.1	24.7	26.3	26.8	27.0	27.1	27.2
Current revenue	27.8	24.9	23.4	21.5	24.1	25.9	26.4	26.6	26.7	26.8
Tax revenue and social security contributions	23.4	22.1	20.6	18.8	21.2	22.9	23.5	23.7	23.9	24.1
Income taxes	5.0	5.1	4.3	4.0	4.3	4.7	4.6	4.6	4.7	4.9
CIT	2.8	3.0	2.1	1.9	2.0	2.0	2.0	2.1	2.2	2.3
PIT	2.2	2.1	2.1	2.1	2.3	2.7	2.6	2.5	2.5	2.6
Social security contributions	4.1	4.4	4.6	4.4	4.6	5.1	5.2	5.7	5.9	6.1
VAT	6.2	4.5	4.8	4.8	4.9	5.2	5.5	5.3	5.2	4.9
Excise taxes	2.0	2.6	2.6	2.1	1.9	2.4	2.4	2.3	2.2	2.2
Customs duties and export taxes	1.6	1.4	1.4	1.5	1.6	1.7	1.9	1.8	1.8	1.6
Other taxes	4.5	4.2	2.9	2.0	3.9	3.9	4.0	4.1	4.2	4.4
Non-tax revenue	4.4	2.7	2.8	2.7	2.9	3.0	2.9	2.8	2.8	2.7
Capital revenue and grants	0.0	0.2	0.3	0.5	0.6	0.4	0.4	0.4	0.4	0.4
Total expenditure and net lending	39.1	33.6	40.7	32.9	35.3	34.8	32.7	31.0	29.1	28.7
Current expenditure	24.0	24.4	27.9	26.2	27.6	27.4	25.1	22.9	21.2	20.7
Wages and salaries	7.1	7.4	7.3	6.6	6.8	6.5	5.9	5.5	5.1	5.1
Purchase of goods and services	4.8	4.7	6.0	4.9	5.5	5.4	5.0	4.8	4.6	4.6
Subsidies	0.8	0.5	0.9	0.7	0.9	0.9	0.8	0.8	0.7	0.7
Transfers	8.9	9.0	9.8	8.9	9.3	9.1	8.4	7.6	7.2	7.2
Interest payments	2.5	2.9	4.0	5.1	5.1	5.5	4.9	4.3	3.6	3.1
Capital expenditure and net lending 2/	15.0	9.2	12.8	6.7	7.7	7.5	7.6	8.0	8.0	8.0
Capital expenditure	10.9	6.0	9.6	5.6	6.2	5.9	6.0	6.5	6.4	6.5
Domestically-financed	9.7	5.0	7.1	3.6	3.6	2.9	2.9	4.3	4.3	4.4
o/w DBM noncommercial spending	2.9	1.9	1.0	0.7	0.7	0.0	0.0	0.0	0.0	0.0
Foreign-financed	1.1	1.1	2.5	2.0	2.5	2.9	3.1	2.2	2.2	2.1
Net lending	4.2	3.2	3.1	1.1	1.5	1.6	1.6	1.6	1.5	1.5
o/w DBM commercial spending	3.8	3.1	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6
o/w Mortgage program net lending	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4	0.4	0.4
Overall balance (Authorities' definition)	-3.7	-5.0	-15.4	-8.2	-8.9	-7.7	-5.3	-3.4	-1.5	-0.9
Structural overall balance (Authorities' definition)	-3.9	-5.0	-15.4	-9.1	-8.9	-7.7	-5.3	-3.4	-1.5	-0.9
DBM spending	6.7	4.9	2.0	1.2	1.2	0.6	0.6	0.6	0.6	0.6
Overall balance (IMF definition)	-11.3	-8.5	-17.0	-10.8	-10.6	-8.5	-5.9	-4.0	-2.0	-1.5
Primary balance (IMF definition)	-8.8	-5.6	-13.1	-5.8	-5.5	-3.1	-1.0	0.3	1.5	1.6
Financing	11.3	8.5	17.0	10.8	10.6	8.5	5.9	4.0	2.0	1.5
External	7.4	1.7	5.1	7.5	7.8	9.2	8.1	6.0	-0.2	1.0
Disbursement	8.0	2.2	5.6	8.2	10.2	11.8	10.9	8.0	5.3	9.8
Amortization	-0.5	-0.5	-0.6	-0.6	-2.4	-2.6	-2.8	-2.0	-5.5	-8.8
Domestic (net)	3.8	6.9	12.0	3.3	2.8	-0.7	-2.2	-2.0	2.3	0.5
Government bonds	4.7	1.6	10.3	4.1	4.1	-1.0	-2.2	-2.0	2.3	0.5
Privatization	0.1	0.2	0.0	0.7	0.4	0.3	0.0	0.0	0.0	0.0
Other	-1.0	5.1	1.7	-1.4	-1.7	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Mineral revenue (in percent of GDP)	4.6	4.4	2.5	...	3.7	3.7	3.9	4.1	4.3	4.6
Non-mineral revenue (in percent of GDP)	23.2	20.7	21.2	...	20.9	22.6	22.9	22.9	22.8	22.6
Total expenditure (in percent of non-mineral GDP)	46.8	40.6	50.9	...	46.4	45.9	43.6	42.5	40.9	41.9
Non-mineral overall balance (in percent of non-mineral GDP)	-19.0	-15.6	-24.4	...	-18.8	-16.2	-13.1	-11.1	-8.9	-8.9
Primary spending (change in percent)	6.2	-12.5	23.4	-16.0	-10.5	3.4	7.3	7.3	7.5	15.0

Sources: Mongolian authorities; and Fund staff projections.
1/ The 2017 budget revenue estimates are understated because accumulations to the FSF and FHF are not included, nor are interest payments from DBM.
2/ Includes DBM spending.

Risks still significant



Adjustment realistic?



2/ Compared with all AEs and EMs with debt greater than 60 percent of GDP, 1990-2011

Fully-funded program

Table 6. Mongolia: External Financing Requirements and Sources, 2015–2022

(In millions of U.S. dollars)

			Projections					
	2015	2016	2017	2018	2019	2020	2021	2022
Gross financing requirements	935	2096	2719	3417	4279	3523	3183	3220
External current account deficit (excl. official trai	497	482	487	1037	1603	1338	1151	926
Amortization	427	559	1019	946	880	1162	1141	1582
Public sector	64	62	257	301	329	259	734	1174
o/w bonds		0	0	0	0	0	500	1000
o/w loans		75	257	301	329	259	234	174
Private sector	363	497	762	645	551	903	407	407
Repayment of arrears	0	0	0	0	0	0	0	0
Gross reserves accumulation (increase = +)	-324	-27	395	823	1068	449	225	47
IMF repurchases and repayments	3	0	0	0	0	0	0	0
Other net capital outflows 1/	332	1082	818	612	728	573	666	665
Available financing	935	2096	1959	2374	3232	3098	3033	3170
Grants	28	33	31	32	35	37	40	21
Disbursements to public sector	255	1133	396	335	344	549	444	1223
o/w bonds		500	20	0	0	240	181	1000
o/w loans		467	376	335	344	309	263	223
Disbursements to private sector	543	5011	535	460	467	475	467	470
Foreign direct investment	110	-4081	995	1547	2385	2036	2081	1456
Financing need	0	0	760	1043	1047	425	150	50
Financing	0	0	760	1043	1047	425	150	50
IMF	0	0	113.5	134.7	141.8	35.5	0	0
Other IFI	0	0	313	475	472	240	0	0
Identified bilateral support	0	0	333	433	433	150	150	50
PBOC swap (additional drawing)	0	0	0	0	0	0	0	0
PBOC swap rollover (net zero)			1725			1725		

Sources: Mongolian authorities; and Fund staff projections.

1/ Includes all other net financial flows, and errors and omissions.

Mongolia: Program Financing (2017-2022)
(In millions of U.S. dollars)

	Total Financing 2017-2022
Financing	5,650
IMF	425
Other IFIs	1,500
World Bank 1/	600
o/w project financing	175
ADB	900
o/w project financing	300
Bilateral donors	1,550
Japan	850
Korea	700
o/w project financing	700
PBOC swap line	2,175

Sources: Fund staff projections.

1/ The World Bank has committed to provide $400 million in budget support over the program period, and there are good prospects that it can provide an additional $200 million, most likely in the form of project aid.

Access and phasing

Table 9. Mongolia: Proposed Access and Phasing Under the Extended Arrangement

Availability Date		Purchase Million SDR	Million USD	Percent of Quota
April 28, 2017	Board approval of extended arrangement	20.9670	28.36	29.00
June 15, 2017	Observance of end-April 2017 performance criteria, completion of first review	20.9670	28.36	29.00
September 15, 2017	Observance of end-June 2017 performance criteria, completion of second review	20.9670	28.36	29.00
December 15, 2017	Observance of end-September 2017 performance criteria, completion of third review	20.9670	28.36	29.00
March 15, 2018	Observance of end-December 2017 performance criteria, completion of fourth review	20.9670	28.36	29.00
June 15, 2018	Observance of end-March 2018 performance criteria, completion of fifth review	26.2088	35.45	36.25
September 15, 2018	Observance of end-June 2018 performance criteria, completion of sixth review	26.2088	35.45	36.25
December 15, 2018	Observance of end-September 2018 performance criteria, completion of seventh review	26.2088	35.45	36.25
March 15, 2019	Observance of end-December 2018 performance criteria, completion of eight review	26.2088	35.45	36.25
June 15, 2019	Observance of end-March 2019 performance criteria, completion of ninth review	26.2088	35.45	36.25
September 15, 2019	Observance of end-June 2019 performance criteria, completion of tenth review	26.2088	35.45	36.25
December 15, 2019	Observance of end-September 2019 performance criteria, completion of eleventh review	26.2088	35.45	36.25
March 15, 2020	Observance of end-December 2019 performance criteria, completion of twelfth review	26.2088	35.45	36.25
		314.5054	**425.4**	**435.00**

Is it working?

What has happened so far?

- **Growth stronger than expected**—commodities prices, China demand, global growth up
- First review delayed on **change in government**
- **First two reviews completed** on December 15
- All quantitative **PCs** met
- **Market** reactions positive


Storming Ahead
Mongolia's stocks climb with IMF deal, commodity rebound
Normalized As Of 11/14/2016
Mongolia Stock Exchange Top 20 Index
MSCI ACWI Index of developed and emerging stocks
MSCI Frontier Emerging Markets Index
100
80
60
40
20
0
Percent Change
Dec
2016
Mar
Jun
2017
Sep
Bloomberg


New World Order
Yields on CCC-rated EM bonds drop below 6 percent
Mongolia 2021 Yield
Belarus 2023 Yield
Ukraine 2019 Yield
6.5
6.0
5.5
5.0
4.5
Percent
May
Jun
Jul
Aug
2017
Sep
Oct
Source: Bloomberg
Bloomberg

Extra slides

Table 5. Mongolia: Summary of Financial Stability Indicators

	2010	2011	2012	2013 Dec	2014 Dec	2015 Dec	2016 Dec	2017 Feb
Capital (in percent)								
Risk Weighted CAR	16.2	15.9	15.5	16.0	17.7	17.9	18.6	18.5
Risk Weighted CAR (excluding Anod and Zoos)	16.2	15.9	15.5	16.0	17.6	17.8	18.3	18.2
Asset quality								
Asset Growth (percent change from start of year)	43.0	46.5	50.5	68.2	11.7	-3.6	21.3	-0.8
Loan Growth (Net) (percent change from start of year)	26.4	34.0	37.8	52.4	17.5	-8.6	4.7	1.3
Loan share in total assets (in percent)	47.9	49.6	49.6	53.1	55.9	53.0	46.0	47.0
Non Performing Loan (in percent)								
NPL to gross loans	6.7	6.0	5.8	2.5	3.1	7.3	7.2	6.9
Past-due to gross loans	3.0	3.3	3.5	0.0	2.2	5.6	7.1	8.4
NPL(old) to gross loans	9.7	9.2	9.3	3.6	5.3	12.9	14.2	15.3
Provision	9.7	9.2	9.3	3.6	5.3	12.9	14.0	15.1
Provision/NPL*s	62.4	65.2	65.4	71.6	70.2	61.6	72.2	75.0
Provision/NPL(old)s	43.2	42.2	40.9	49.7	41.5	34.8	36.4	34.0
NPL*s net of provision /Capital	12.5	10.6	10.5	4.3	5.0	12.7	7.9	6.6
NPL(old) net of provision /Capital	27.2	27.3	28.6	11.1	16.5	38.2	35.7	38.4
FX loans to total loans	33.7	33.2	34.4	27.5	23.5	24.5	20.2	20.4
Interest Rate (in percent)								
Average lending rate	17.4	17.4	17.0	14.0	14.3	15.2	16.7	18.6
Earnings and Profitability (in percent)								
Return on assets	1.8	2.7	1.8	2.7	1.8	1.2	0.8	1.6
Return on equity	11.2	24.2	14.6	20.4	13.5	9.1	6.9	14.7
Interest income to gross income	34.2	30.5	34.6	49.3	54.6	64.5	60.9	69.0
Interest expenses to gross income	21.3	19.2	22.5	30.2	34.7	41.1	42.2	49.2
Non-interest expenses to gross income	72.7	72.7	71.2	57.9	55.4	51.4	53.3	40.2
Personal expenses to Non-interest expenses	7.2	6.5	7.7	10.2	11.2	13.9	11.8	16.2
Liquidity (in percent)								
Liquid assets to Total assets	44.1	43.3	43.4	30.9	25.2	22.0	24.0	22.2
Liquid assets to Short-term liabilities	53.3	52.1	52.1	32.0	29.7	30.6	35.8	33.4
FX deposit to total Deposits	32.4	29.9	30.9	21.6	26.8	26.1	31.7	29.3

Source: Mongolian authorities.

Phasing of program financing

Mongolia: Phasing of Program Financing (In millions of U.S. dollars)				
	2017Q2	2017Q3	2017Q4	2018Q1
Financing	313	198	248	278
IMF	57	28	28	28
Other IFIs and bilateral donors	257	170	220	249

Sources: Fund staff projections.

Critiques of Fund Programs

- Inadequate analysis, wrong policy advice
- "One size fits all", not flexible
- Too much emphasis on adjustment vs. growth
- Not enough emphasis on who bears the burden
- Too intrusive, not enough emphasis on ownership
- Moral hazard—wrong incentives for countries and lenders

Do the critiques hold water? Have they been addressed?

Table 4. Mongolia: Monetary Aggregates, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Projections			
				(In billions of togrog, end of period)						
Monetary survey										
Broad money	9,449	10,635	10,008	12,031	13,967	15,822	18,465	21,356	24,721	28,777
Currency	582	499	461	565	656	743	867	1,003	1,161	1,351
Deposits	8,867	10,135	9,547	11,466	13,311	15,079	17,597	20,353	23,560	27,426
Net foreign assets	760	-2,021	-4,166	-5,028	-4,176	-2,037	710	2,057	3,951	4,184
Net domestic assets	8,689	12,656	14,174	17,058	18,143	17,859	17,754	19,298	20,769	24,594
Domestic credit	9,974	13,738	14,386	16,760	18,252	19,640	20,846	22,339	25,840	28,284
Net credit to government	-1,061	106	683	1,886	2,044	1,770	1,081	381	1,274	-112
Credit to the private sector 1/	11,034	13,632	13,703	14,874	16,208	17,870	19,765	21,958	24,566	28,396
Other items, net	-1,285	-1,082	-212	298	-109	-1,780	-3,092	-3,040	-5,071	-3,690
Monetary authorities										
Reserve money	3,335	3,427	2,462	3,067	3,734	4,457	5,172	5,965	6,867	7,972
Net foreign assets	1,941	120	-1,286	-1,708	-731	1,072	3,797	5,206	7,341	7,830
Net domestic assets	1,394	3,307	3,748	4,774	4,466	3,385	1,375	759	-475	142
Net credit to government	-1,685	-570	-474	-332	-332	-332	-332	-332	-332	-332
Claims on deposit money banks	4,297	2,608	1,686	1,471	1,097	837	677	567	445	495
Minus: Central bank bills (net)	1,627	854	1,025	577	979	2,535	5,041	6,469	8,418	8,706
Other items, net	410	2,123	3,559	4,212	4,680	5,415	6,071	6,993	7,830	8,684
Memorandum items:					(In percent, unless otherwise indicated)					
Annual broad money growth	24.1	12.5	-5.9	20.2	16.1	13.3	16.7	15.7	15.8	16.4
Annual reserve money growth	54.0	2.7	-28.2	24.6	21.8	19.3	16.0	15.3	15.1	16.1
Velocity	2.0	2.1	2.3	2.0	1.9	1.8	1.7	1.6	1.6	1.6
Credit growth (percent)	57.9	23.5	0.5	8.5	9.0	10.3	10.6	11.1	11.9	15.6

Sources: Mongolian authorities; and Fund staff projections.
1/ Includes mortgage-backed securities.

Table 7. Mongolia: Capacity to Repay Indicators, 2017–22
(In millions of SDR, unless otherwise indicated)

	Projections					
	2017	2018	2019	2020	2021	2022
Exposure and Repayments from Existing and Prospective Fund Arrangements						
GRA credit to Mongolia	83.87	183.46	288.30	314.51	311.02	293.11
In percent of quota	116.00	253.75	398.75	435.00	430.17	405.40
Debt service on GRA credit	0.71	1.97	4.75	7.37	11.14	25.33
Principal (repayments/repurchases)					3.49	17.91
Charges and interest	0.71	1.97	4.75	7.37	7.65	7.42
Debt and debt service ratios (In percent of GDP)						
Public and publicly-guaranteed debt	94.86	101.34	100.00	97.46	92.31	84.70
Excluding proposed IMF	93.77	99.00	96.63	94.02	89.15	81.99
GRA credit to Mongolia	1.10	2.34	3.37	3.44	3.16	2.71
Public and publicly-guaranteed debt service	17.69	19.20	18.17	14.67	15.89	19.08
Excluding proposed IMF	17.68	19.17	18.11	14.59	15.77	18.84
GRA debt service	0.01	0.03	0.06	0.08	0.11	0.23
Debt and debt service ratios (In percent of exports of goods and services)						
Public and publicly-guaranteed debt	171.01	185.46	182.44	178.13	167.39	158.51
Excluding proposed IMF	169.03	181.18	176.30	171.84	161.66	153.45
GRA credit to Mongolia	1.98	4.28	6.14	6.28	5.74	5.07
Public and publicly-guaranteed debt service	31.89	35.13	33.14	26.81	28.81	35.70
Excluding proposed IMF	31.87	35.08	33.04	26.66	28.60	35.27
GRA debt service	0.02	0.05	0.10	0.15	0.21	0.44

Sources: IMF Finance Department; and Fund staff estimates and projections.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Mongolian authorities and IMF staff regarding the definition of quantitative performance criteria (QPC) for the extended arrangement under the Extended Fund Facility (EFF). It sets out the QPC adjusters and data reporting requirements for the duration of the extended arrangement, as described in the authorities' Letter of Intent (LOI) dated April 13, 2017, and the attached Memorandum of Economic and Financial Policies (MEFP). The TMU also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets.

I. Quantitative Performance Criteria and Indicative Targets: Definition of Variables

Test Dates

2. Performance criteria for end-April 2017, end-June 2017, end-September 2017, and end-December 2017 have been established with respect to:

- Floors on the change in level of net international reserves of the Bank of Mongolia (BOM);
- Ceilings on the level of net domestic assets of the BOM;
- Floors on the level of primary balance of the general government;
- Ceilings on the contracting and/or guaranteeing by the general government or the BOM of new nonconcessional external debt maturing in one year or more; and
- Ceilings on stock of guarantees on external debt by the general government or the BOM.

3. Performance criteria that are applicable on a continuous basis have been established with respect to:

- Ceilings on the contracting and/or guaranteeing by the general government or the BOM of new nonconcessional external debt maturing in less than one year,
- Ceilings on the accumulation of new external payment arrears;

4. Indicative targets have been established for end-April 2017, end-June 2017, end-September 2017, end-December 2017, with respect to:

- Ceilings on the level of reserve money.

Definitions

5. For the purposes of the program the following definitions will be used:

- The general government (GG) includes all units of budgetary central government, social security funds, extra-budgetary funds (including but not limited to the Stabilization Fund and the Future Development Heritage Fund), and local governments, and the Development Bank of Mongolia (DBM). Debts of other legally autonomous state-owned enterprises (SOEs) and BOM liabilities including the swap line with the People's Bank of China (PBOC) are excluded from the definition of the general government debt.

Table 3. Mongolia: Balance of Payments, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
	(In millions of U.S. dollars, unless otherwise indicated) 1/									
Current account balance (including official grants)	-3,192	-1,405	-469	-449	-456	-1,004	-1,568	-1,301	-1,110	-905
Trade balance	-1,321	994	1,178	1,330	1,266	968	709	1,002	1,267	1,626
Exports	4,269	5,776	4,616	4,803	4,898	4,943	5,440	5,827	6,348	6,777
Mineral export	4,050	4,762	4,099	4,125	4,314	4,351	4,825	5,195	5,691	6,103
Non-mineral export	219	1,014	517	678	584	592	615	633	656	675
Imports	-5,590	-4,783	-3,438	-3,473	-3,632	-3,975	-4,731	-4,825	-5,081	-5,151
Services, net	-1,314	-1,553	-857	-1,142	-1,017	-1,174	-1,328	-1,333	-1,405	-1,423
Income, net	-699	-989	-966	-832	-937	-1,033	-1,196	-1,229	-1,243	-1,374
Current transfers	140	168	175	191	231	234	248	259	272	266
General government	22	27	27	29	31	32	35	37	40	21
Other sectors	118	142	148	162	200	202	212	221	231	245
Of which: Workers remittances	26	55	76	108	88	88	96	103	110	121
Capital and financial account	1,438	1,112	382	707	91	785	1,589	1,325	1,185	902
Capital account	126	100	114	92	114	117	128	137	147	152
Financial account	1,312	1,012	268	615	-23	667	1,461	1,188	1,038	751
Direct investment	2,098	276	110	-4,081	995	1,547	2,385	2,036	2,081	1,456
Portfolio investment	-156	277	274	469	-94	0	0	-260	-319	0
Trade credits, net	9	-136	-302	-201	-45	-45	-45	-45	-45	-45
Currency and deposits, net	-1,376	-210	-233	-497	-886	-663	-791	-652	-751	-755
Loans, net	737	758	347	5,045	7	-171	-88	108	72	95
Other, net	0	48	72	-120	0	0	0	0	0	0
Errors and omissions	-113	-128	-181	-277	0	0	0	0	0	0
Overall balance	-1,867	-421	-268	-18	-365	-220	21	24	75	-3
Financing Gap	0	0	0	0	760	1,043	1,047	425	150	50
Fund credit	-93	-61	-3	0	113.5	134.7	141.8	35.5	0.0	0.0
Donor support					647	908	905	390	150	50
Memorandum items:										
Current account balance (in percent of GDP)	-25.4	-11.5	-4.0	-4.1	-4.4	-9.5	-13.6	-10.6	-8.4	-6.2
Gross official reserves (end-period) 2/	2,242	1,648	1,324	1,297	1,692	2,515	3,583	4,032	4,257	4,304
(In months of next year's imports of goods and services)	3.9	4.0	2.9	2.9	3.4	4.4	6.1	6.5	6.8	7.2
Change in reserves 3/	-1,885	-594	-324	-27	395	823	1,068	449	225	47
Copper price (in U.S. dollars per ton)	7,331	6,863	5,510	4,868	5,722	5,733	5,721	5,708	5,704	5,704
Oil price (in U.S. dollars per barrel)	104	96	51	43	55	56	56	56	56	57
Gold price (in U.S. dollars per troy oz.)	1,411	1,266	1,160	1,248	1,212	1,225	1,251	1,274	1,299	1,325

Sources: Mongolian authorities; and Fund staff projections.

1/ Structural break in series: 2013-2015 reported on the basis on BPM5, while 2016 onwards in on BPM6.

2/ Gross official reserves includes drawings from swap line.

3/ Changes in reserves reflect valuation adjustments.