

Mongolia: Selected Issues and Statistical Appendix

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MONGOLIA

Selected Issues and Statistical Appendix

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Approved by Asia and Pacific Department

September 7, 2005

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INTRODUCTION

1. The three papers presented in this volume provide background information to the staff report for the 2005 Article IV consultation. The first chapter is an overview of fiscal developments since the late 1990s, assessing the “quality” of the ongoing fiscal adjustment that is whether its size and composition could be sustained into permanent fiscal consolidation supporting sustained economic growth. The second chapter examines the dramatic expansion of bank credit to the private sector over the last 5 years, asking what its sources are and what its consequences may be, particularly for the maintenance of macroeconomic and financial stability. Finally, chapter three describes recent developments in the garment sector in Mongolia, with the emergence and rise of this sector in the second half of the 1990s, and its subsequent decline in 2005 in the context of the phasing out of quotas under the Agreement on Textile and Clothing (ATC).

Fiscal developments

2. From the late-1990s onward, Mongolia underwent significant fiscal consolidation, with the overall deficit declining from an average of 10 percent of GDP over 1997-2000 to less than 5 in the period 2001-04. Much of it was achieved by increasing revenues, with new taxes (especially the VAT) being introduced or replacing old ones, an increase in foreign trade, and an overall broadening of the tax base. The starting point, however, was not low: revenues already averaged 29 percent of GDP in the period 1997-2000. By 2004, at 39 percent of GDP, Mongolia's revenue effort compares very favorably with that of countries at similar levels of development. This high and increasing revenue productivity stems in part from the broadness of the tax base and from improvement in tax administration, but it also reflects a high cascading under the VAT, low income tax thresholds, and discretionary enforcement practices in the enterprise tax. Thus, the burden and distortions of taxation are significant, and both tax reform and tax administration strengthening remain high on the agenda.

3. Public spending has increased faster than GDP. Overall expenditure increased substantially, by close to 4 percentage points of GDP in the 2001-04 average compared with 1997-2000. Much of the growth reflects the interplay of political pressures and promises for new spending programs and agencies, and lack of progress on restructuring existing ones. At over 40 percent of GDP, public spending in Mongolia is high in comparison with other transition or developing countries.

4. The observed improvement in the fiscal position is robust to alternative definitions of fiscal balance. The extent of fiscal consolidation was significant, even after correcting for transitory increases in revenues in the mining sector. This said, Mongolia's vulnerability to terms-of-trade shocks and natural disasters remains high, with clear risks to the fiscal stance. A large decline in commodity prices, especially gold and copper prices, would undermine Mongolia's fiscal position, as royalties and corporate income tax contributions from the private mining sector, and dividend payments from major mining sector SOEs, could begin to dry up. The fiscal stance is also sensitive to weather-related shocks. The government therefore needs to pursue prudent fiscal policies when revenues are robust, in order to preserve the ability to provide relief during disasters without causing macro imbalances.

The 2000-04 credit boom

5. The growth in bank credit to the private sector in recent years has been truly dramatic, averaging close to 90 percent per year in nominal terms in the 4-year period through 2004¹. At end 2004, the outstanding stock of commercial bank loans to the private sector reached 12 times its level at end 2000, albeit from a very low base. Several factors account for such a large increase, including a resurgence in economic growth, sectoral developments on the demand side (e.g. housing), a recovery from previous banking crises in the 1990s – with an increase in depositor confidence underpinning reintermediation –, and financial deepening.

6. Nevertheless, such a rapid growth raises vulnerability concerns. The banking system remains fragile, as credit culture and information are still weak, and the supervisory capacity, while improved, has not grown on a par with credit activity. Non-performing loans have increased sharply, reaching levels that are significant in relation to both bank portfolios and capital, and the broader economy. Moreover, much of the growth in bank deposits and credit has taken place in the context of a recovering, and more recently, a booming, economy. The resilience of the banking system is thus likely to be tested in the context of an economic slowdown, or under other types of macroeconomic shocks, such as the likely future deterioration in terms of trade.

Developments in the garment sector

7. Mongolia's small garment sector emerged in the second half of the 1990s, as a few Asian textile investors, mainly Chinese, took advantage of Mongolia's quota-free access to the United States and European Union markets. Non-cashmere garment exports, virtually non-existent in the early 1990s, grew to 10 percent of exports by 2000, the bulk of it to the U.S. market. Although about 100 medium-sized firms were active, generating an estimated 18,000 jobs by 2004 (about 3 percent of the labor force), the sector's weight in total activity remained modest, as wages were low, much raw material and equipment continued to be imported, and few linkages developed with Mongolia's more traditional cashmere and hides sectors.

8. With Mongolia's garment sector very small by international standards, the impact of ATC quota elimination in early 2005 has been substantial. While the artificial comparative advantage provided by the quota system was not expected to be sustained, the decline of garment exports to the United States has been particularly severe. If the trend in the first half of the year persists, non-cashmere garment exports could drop by one third in 2005, and decline at the same pace in 2006. Recent measures taken by the authorities, including tax relief to firms in the sector, did not arrest the decline. Not all these measures may be appropriate, however: while dealing with the social impact is important, the closure of firms may largely reflect an adjustment that is desirable in view of Mongolia's limited long-term comparative advantage in textile, especially compared with its giant neighbor, China.

¹ Real growth was thus equally substantial, as inflation averaged about 6 percent over the same period.

I. FISCAL ISSUES AND PROSPECTS¹

A. Introduction

1. **Between 1997–2000 and 2001–04, Mongolia achieved an impressive consolidation of its general government budget.** The average overall budget deficit (after grants) was reduced by more than half, from 10.6 percent of GDP during 1997–2000 to 4.4 percent of GDP during 2001–04, and the budget deficit reached a low of 2.2 percent of GDP in 2004. Strong revenue performance more than offset the growth of government expenditures. Rising commodity prices, increasing imports, and the successful introduction of the VAT, were all major contributors to the higher revenues. Meanwhile, overall expenditures increased from 39.3 percent of GDP during 1997–2000 to 43 percent of GDP during 2000–03.
2. **The purpose of this chapter is to assess whether the size and composition of the ongoing fiscal adjustment could lead to a permanent consolidation of the budget sufficient to support sustained economic growth over the medium term.** The main conclusion reached by the empirical analysis is that the sustainability of current spending levels is subject to substantial risks in the short and medium terms. At any time it may be necessary to adjust expenditures to deal with weather-related calamities and the volatile behavior of commodity-dependent revenues (gold and copper).
3. **The remainder of the chapter is devoted to analyzing changes in the size and composition of Mongolia's general government deficit between 1997–2000 and 2001–04, with particular attention to issues connected with the fiscal adjustment.** The breakdown of public expenditures and revenues by category shown in Section B is aimed at assessing the factors contributing to the fiscal balances during these periods. Section C summarizes the main features of Mongolia's revenues and expenditures. Section D reports recent trends in the budget under alternative definitions of the fiscal deficit, and reviews the outstanding fiscal policy issues. The final section, Section E, presents the conclusions of the exercise.

B. Changes in the Structure of Revenues and Expenditures

4. **Mongolia's very high revenue and expenditure levels make it different from the other PRGF countries in the region.** Indeed, at over 40 percent of GDP, spending by the Mongolian government is even higher than that of the CIS-7² countries. (Table I.1).

¹ This chapter was prepared by Selim Cakir.

² The CIS-7 is an especially relevant comparator group because it closely resembles Mongolia in a number of respects, including Mongolia's recent (and in some respects still on-going) transition from central planning to a market economy.

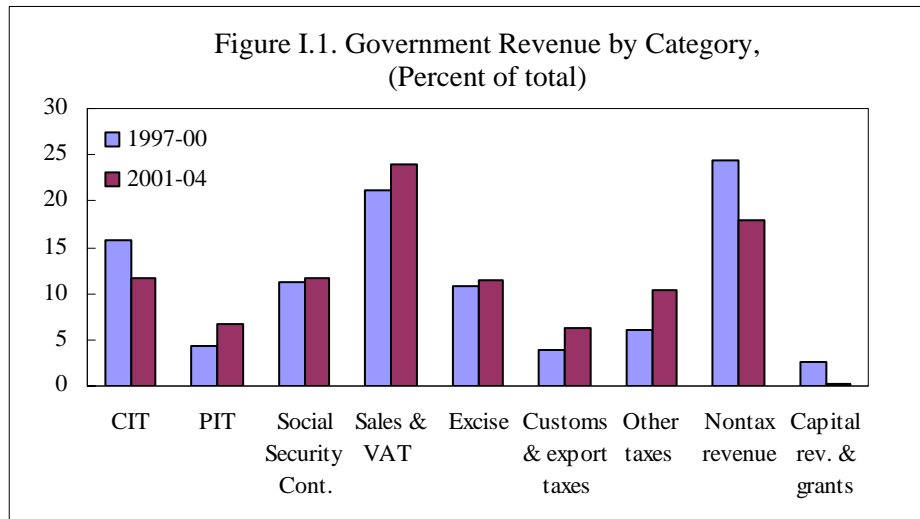
	Expenditures	Revenues
	(In percent of GDP)	
Armenia	19.3	18.3
Azerbaijan	28.6	27.4
Georgia	18.0	15.6
Kyrgyz Republic	27.3	22.3
Moldova	30.0	30.6
Tajikistan	14.5	12.7
Uzbekistan	26.5	26.6
CIS - 7	23.5	21.9
Mongolia	42.1	37.9

Source: GFS data and Mongolian authorities

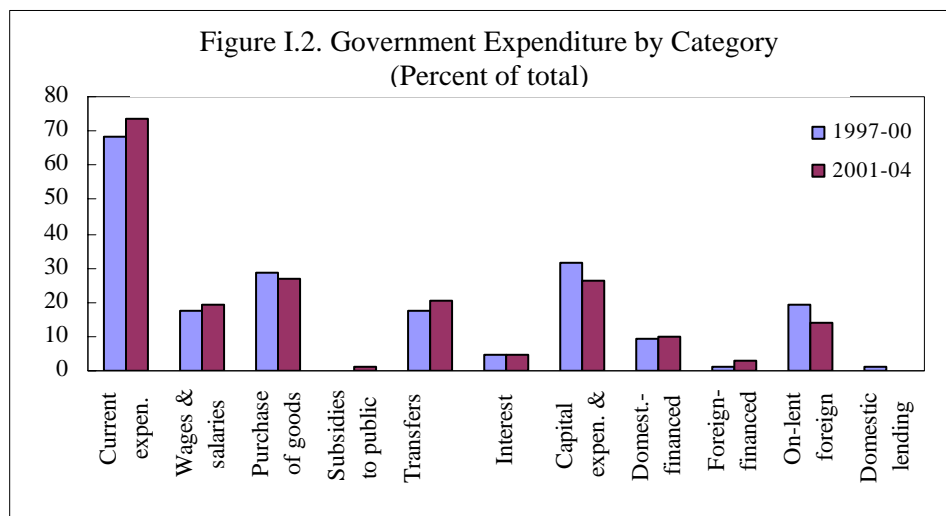
5. **The composition of revenues changed sharply between 1997–2000 and 2001–04 periods (Figure I.1).** Revenues from the mining sector increased substantially in parallel with the rise in world copper and gold prices and the accompanying increase in mining activity. Important reforms such as the VAT were introduced to broaden the tax base, and tax rates were adjusted to bring closer to those in other countries. Overall, the share in total general government revenues of direct taxation, including the corporate income tax (CIT) and the personal income tax (PIT) decreased, while the share of social contributions remained relatively unchanged, and indirect taxes³ increased substantially. Other revenues⁴ declined (see Figure 1). The increased share of indirect taxes results from the successful implementation of the VAT and the increasing openness of Mongolia's economy (imports have increased from 50 percent of GDP in 1997 to almost 70 percent of GDP in 2004.)

³ VAT, customs duties, and excise taxes.

⁴ Including non-tax revenues, grants, property taxes, royalties, petroleum tax and others. The largest single contributor was Erdenet Copper Mine dividends, but there have been fairly low is recent years, in 2005 this dividend rose sharply.



6. **The composition of total expenditures has also undergone significant changes (Figure 2).** The composition of spending has shifted toward current spending in recent years. Between 1997–2000 and 2001–04, current expenditures increased from an average of 27 percent of GDP to 31.5 percent, due to increases in real wages and pensions and an upsurge in expenditures for other goods and services. During the same period, capital expenditures declined from an average of 12.4 percent of GDP to 11.5 percent, reducing their share in total expenditures from 35 percent to 26 percent. Transfers to pension funds accounted for 18 percent of expenditures during 2001–04, up from 11 percent during 1997–2000. The shares of social spending and non-discretionary interest spending remained relatively unchanged, but social spending is expected to show an increase starting in 2005 due to the government's child allowance initiative.



C. Main Features of Mongolia's Tax System and General Government Expenditures

7. **Mongolia's total revenue collection compares favorably with those of other countries at similar levels of development.** The revenue productivity of some taxes, especially the VAT, is significantly higher than that of many other developing countries, yet tax rates are broadly in line with other countries in the region, and lower than those of many developing countries (Table I.2). This high revenue productivity stems partly from the broadness of the tax base and the efficient functioning of the tax and customs administrations. It also reflects a significant amount of cascading under the VAT, a personal income tax threshold that is substantially lower than in many developing countries, and the fact that the base of the enterprise tax is ill-defined compared with the standard in many countries.

Table I.2. Mongolia and CIS Countries: VAT and CIT Rates

	Current Standard VAT Rate	Top National CIT Rate
Armenia	20.0	25.0
Azerbaijan	18.0	24.0
Belarus	18.0	24.0
Georgia	20.0	20.0
Kazakhstan	15.0	30.0
Kyrgyz Republic	20.0	20.0
Moldova	20.0	20.0
Mongolia	15.0	30.0
Russia	18.0	24.0
Tajikistan	20.0	30.0
Turkmenistan	20.0	25.0
Ukraine	20.0	25.0
Uzbekistan	20.0	18.0
Unweighted Average: CIS	18.7	24.2
Unweighted Average: CIS-7	18.0	25.1

Sources: International Bureau of Fiscal Documentation (IBFD), "Taxation and Investment in Central and East European Countries," (Loose-leaf: Amsterdam), Corporate Taxes 2003-2004, Worldwide Summaries (PricewaterhouseCoopers); and "Corporate Tax Rate at a Glance" (Deloitte).

8. **Accounting for 24 percent of total revenues, the VAT represents Mongolia's most important single source of tax revenue (Table I.3).**⁵ VAT revenues increased by 3 percent of

⁵ The VAT was introduced in 1998 with a single rate of 10 percent, which was raised to 15 percent in 2001.

GDP during 2001–04, compared to 1997–2000. The VAT has a relatively broad base, a single positive rate, and a zero rate for exports. The substantial rise in import levels, together with the increased VAT rate, accounts for this performance. At 60 percent, the revenue productivity of Mongolia's VAT is higher than the OECD average of 41 percent.⁶ However, this high productivity level is partly due to a failure to pay refunds appropriately.

Table I.3. Mongolia: General Government Revenues by categories, 1997–2000 and 2001–04

	1997-2000	2001-04	Difference
	(In percent of GDP)		
Total revenue and grants	28.7	38.6	9.9
Current revenue	27.9	38.0	10.0
Tax revenue and social security contributions	21.0	29.9	8.9
Income taxes	5.7	6.6	0.8
Enterprise income tax	4.5	4.5	0.0
Personal income tax	1.2	2.1	0.9
Social security contributions	3.2	4.6	1.3
Sales tax and VAT	6.1	9.1	3.0
Excise taxes	3.1	4.2	1.1
Customs duties and export taxes	1.1	2.3	1.2
Other taxes	1.7	3.2	1.4
Nontax revenue	7.0	8.1	1.1
Capital revenue and grants	0.8	0.6	-0.2

Sources: Ministry of Finance; and Fund staff estimates

9. **The CIT is Mongolia's second most important revenue source, accounting for some 12 percent of total revenues.** During 1997-2000 and 2001-04, CIT payments remained constant at 4.5 percent of GDP. However, the composition of CIT payments has changed dramatically. In particular, CIT payments by the Erdenet Copper Mine (A Mongolian-Russian joint venture) increased from 1 percent of GDP, on the average, during 1997–2000 to 1.7 percent of GDP during 2000–04, in parallel with the rise in world prices for copper. But the CIT payments of other enterprises declined from 3.5 percent of GDP to 2.8 percent, reflecting in part the authorities' reduction of the top rate for CIT from 40 percent to 30 percent at the end of 2003.

10. **The revenue yield from PIT is relatively high for a country at Mongolia's stage of development.** The combined revenues from PIT and social security contributions amounted to

⁶ Revenue productivity is calculated as total VAT revenue as a percent of GDP divided by the VAT standard rate.

almost one-fifth of total revenue during 2001–04. Of this, social security contributions accounted for around 12 percent. In line with the increase in incomes, PIT revenues almost tripled between 1997 and 2004 to reach 2.5 percent of GDP. More than 80 percent of PIT is collected from wages and salaries.

11. **Excise taxes account for around 10 percent of all revenues.** During 2001–04, the ratio of excise revenues to GDP increased by 1 percent of GDP over 1997–2000. Increases in the consumption of oil, domestically produced vodka, and imported beer accounted for most of this increase, rather than an increase in rates. Mongolia has a low, uniform import duty rate of 5 percent, and the revenue yield of import taxes is about 2 percent of GDP.

12. **In parallel with the increase in mining activity and world prices for copper and gold, royalty revenues increased to 1.4 percent of GDP in 2004, up from 0.4 percent of GDP in 1997.** Similarly, revenue from mining exploration and license fees grew from almost none in 1997 to 0.7 percent of GDP in 2004. The increases in mining activity and the associated revenues suggest that the current minerals sector tax regime is not acting as a significant disincentive to investors.

Expenditures

13. **Between 1997–2000 and 2001–04, the ratio of expenditures to GDP increased by 3.7 percentage points of GDP.** This increase was mainly driven by the effect of increasing current expenditures on wages, transfers, and goods and services.

14. **Mongolia's spending on other goods and services is relatively high, partly due to overlapping and redundant government activities.** Between 1997–2000 and 2001–04, expenditure on goods and services increased from an average of 11.3 percent of GDP to 13.3 percent. The relatively high level of spending on other goods and services is partly due to specific characteristics of Mongolia. Long and often very severe winters generate high costs for heating and maintenance (the heating season lasts 8 months) while providing public services to small population centers in remote regions is expensive. However, the high level of spending also reflects widespread inefficiencies, related to the government continuing to perform functions that are duplicative in a market economy.

Table I.4. Mongolia: General Government Expenditures by Categories, 1997-2000 and 2001-04

	1997-2000	2001-04	Difference
	(In percent of GDP)		
Total expenditure and net lending	39.3	43.0	3.7
Current expenditure	27.0	31.5	4.5
Wages and salaries	6.9	8.1	1.2
Purchase of goods and services	11.3	13.3	2.0
Subsidies to public enterprises	0.1	0.6	0.6
Transfers	6.8	8.1	1.3
Interest payments	1.9	1.4	-0.5
Contingency allocation			0.0
Capital expenditure and net lending	12.4	11.5	-0.8
Capital expenditure	4.2	5.7	1.5
Domestically-financed	3.8	4.4	0.7
Foreign-financed	0.4	1.3	0.8
Net lending	8.1	5.8	-2.3
On-lent foreign project loans (net)	7.7	5.6	-2.1
Domestic lending minus repayments	0.4	0.3	-0.2

Sources: Ministry of Finance; and Fund staff estimates

15. **Mongolia currently spends around 12 percent of GDP on capital projects and net lending.** However, its investment decisions are not guided by a comprehensive strategy. Lending decisions are often made by cabinet outside the normal budgetary process and on an ad hoc basis. The government extends credits to organizations and students many of whom have no intention and no incentive to service the loans. Even profitable organizations are in arrears to the budget for on-lent loans. Because government lending is not subject to hard budget ceilings, it is often abused to circumvent the budget appropriation process.

16. **Between 1997–2000 and 2001–04, transfer payments increased from an average 6.8 percent to 8.1 percent of GDP, and the share of transfer payments in overall expenditures likewise increased from 17 percent to 20 percent.** This increase is mostly due to pension payments. The pension system is running deficits of almost 2 percent of GDP in spite of highly favorable demographics. This is due to low retirement ages, a limited contribution base, and a minimum pension that is high relative to the average wage. High contribution rates are needed to support such a system, but this will hamper private sector development. To solve these risks to the viability of the pension system in the short and medium terms will require a package of comprehensive reforms, which should include increasing retirement ages, changing the benefit formula, broadening the base, and improving the administration of social contributions.

17. **Spending on social assistance has been steady at around 1.2 percent of GDP through 2004, but these expenditures are expected to double in 2005 and onwards.** This is mostly due to the planned introduction in 2005 of a new child allowance scheme, but increases in other benefit levels have also played a part. In 2005, the government established a new child allowance to poor households with three children or more (so-called "child money"), and afterwards extended this allowance to all poor households with children. Families are to receive a monthly benefit of Tog 3,000 per month for each child. This joins the government's support for poor and vulnerable groups, which takes the form of a patchwork of poorly targeted social benefits. To rationalize the system of social assistance, it will be key to reduce the number of benefits while developing mechanisms for accurately channeling the scarce government resources to the most needy.

18. **Mongolia's spending of over 8 percent of GDP on the civil service is too high and crowds out other expenditures.** Containing the public sector wage bill will be critical for maintaining short-term fiscal discipline and medium-term fiscal sustainability. Public sector employment remains high, accounting for 14 percent of the working population and civil service salaries are very compressed. Implementing changes in the civil service will be very difficult, however, given the very limited scope for civil servants in remote regions of the country to find alternative employment. Civil service employment is seen as a social good and in some soums (local centers) it is the only source of employment.

D. Trends in Fiscal Deficit

19. **Mongolia's budget deficit was cut by more than half between 1997–2000 and 2001–04, mainly through increases in revenue.** The average overall budget deficit (after grants) was reduced from a historically high level 14.3 percent of GDP in 1998 to 2.2 percent of GDP in 2004.

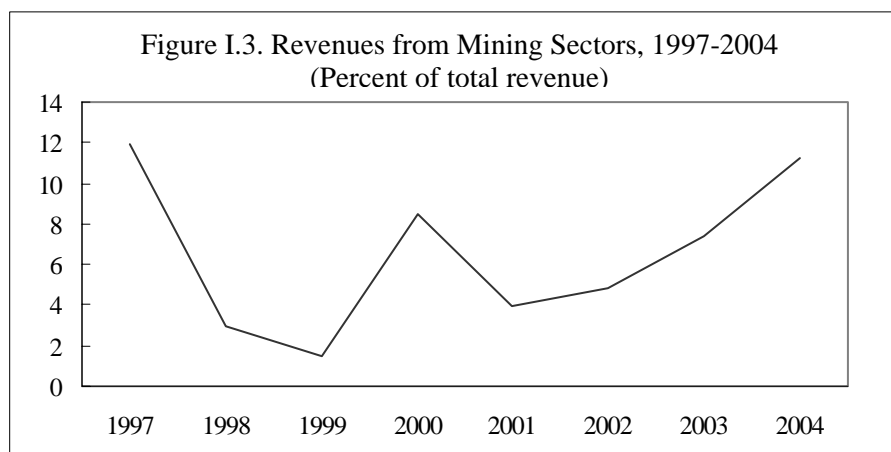
20. **The magnitude of the fiscal consolidation can be observed in the primary fiscal deficit.** The fiscal deficit (excluding interest payments) shows a steep decline produced by the strong revenue performance. The primary deficit fell from 8.7 percent of GDP during 1997–2000 to only 3 percent during 2001–04. The primary deficit reached a low of 1 percent of GDP in 2004. During these periods, revenues increased by almost 10 percent of GDP and more than offset the increase (of 4.2 percent of GDP) in non-interest expenditures.

Table I.5. Mongolia: Trends in Fiscal Deficit 1997-2004

	1997	1998	1999	2000	1997-00	2001	2002	2003	2004	2001-04
	(In percent of GDP)									
Current balance	1.6	-0.7	-0.2	3.2	1.0	4.8	4.4	7.6	9.2	6.5
Primary Balance	-6.5	-12.9	-10.3	-5.2	-8.7	-3.9	-4.3	-3.0	-1.0	-3.1
Overall balance (incl. grants)	-9.1	-14.3	-12.2	-7.0	-10.6	-5.4	-5.9	-4.2	-2.2	-4.4
Overall Balance (w/ trend gold & copper prices)	-9.2	-14.2	-12.2	-6.8	-10.6	-5.1	-5.7	-4.1	-4.2	-4.8
Excluding project loans and grants	-1.7	-6.3	-3.7	-1.3	-3.3	-0.1	0.2	2.5	4.5	1.8

Sources: Ministry of Finance; and Fund staff estimates and projections

22. **Revenues from copper and gold account for a sizable share of total revenues (Figure 3).** The share in total revenues of direct revenues from gold and copper has increased from 6.2 percent during 1997–2000 to 6.8 percent during 2001–04. The rise in world copper and gold prices has increased this ratio to more than 11 percent in 2004, and it is expected to reach 13 percent in 2005. The revenues from gold mainly consist of royalty payments, and have therefore been increasing in line with increases in mining activity and the price of gold. When the deficit is measured by using trend prices rather than actual prices for copper and gold, the result is a deficit close to the overall deficit, with exception made for 2004, when world copper prices increased substantially over previous years. In 2004, the deficit calculated with trend prices for copper and gold would have been 2 percent of GDP higher than the actual deficit.⁷ When dividends from Erdenet are included into this calculation with the assumption that the company will be disbursing its dividends fully, the deficit would have been higher by more than 3 percent of GDP.



23. **While the windfall from the high level of copper prices could continue for a number of years to come, the government should try to accumulate financial assets during the period of high copper prices, so that it can maintain its expenditures when copper prices decline.** Erdenet's CIT payments have been increasing in line with copper prices, but the company has not been distributing in full to the government its share of the profits. For example, not until 2005 did the government receive a sizable portion of the profits earned in 2003 (0.8 percent of GDP). Assuming that Erdenet will retain 10 percent of its after-tax profits, and will pay dividends to its shareholders on time (51 percent going to Mongolia and 49 percent to Russia), it is possible that by 2011 the Mongolian government could accumulate approximately 10 percent of GDP from dividend payments alone.

⁷ The trend prices were calculated by using the Hodrick-Prescott filter. Erdenet's dividend payments were excluded from this calculation because the correlation between copper prices and Erdenet's payments has been very weak.

24. **The sustainability of Mongolia's current spending levels is subject to substantial risks in the short and medium terms.** Expenditures may have to be adjusted at any time in response to weather-related calamities and the volatile behavior of commodity-related revenues (gold and copper). In addition, the political process adds to the short-term pressures on government spending. Pre-election promises to significantly increase social protection expenditures, and lobbying pressures on parliamentarians to increase investments in their constituencies outside the normal budgetary process, have weakened the macro-fiscal framework. A reduction in the tax burden may be needed in the medium term, and would require that spending be reduced as well. In addition, the upward trend of pension system deficits casts doubt on the sustainability of the present social security arrangements.

E. Conclusion

25. **During 2001–04, Mongolia underwent an unprecedented large fiscal consolidation.** The consolidation was achieved through the successful introduction of new taxes, an increase in foreign trade, and an overall broadening of the tax base. At 39 percent of GDP in 2004, Mongolia's revenue effort compares favorably with those of countries at similar levels of development. The revenue productivity of taxes, especially the VAT, is significantly higher than that of many other developing countries, despite the fact that Mongolia's tax rates are broadly in line with, or lower than, rates elsewhere in the region.

26. **The government will have to reduce spending before it can cut taxes.** At over 40 percent of GDP, the Mongolian government's spending is high in comparison with that of the transition countries. And despite the large reduction in the budget deficit, expenditures have largely escaped adjustment. Rapid revenue growth has allowed overall expenditures, and especially current expenditures to increase substantially. Excessive spending requires high taxation and borrowing that reduce the resources available to the private sector, and increases the incentives to flee the formal sector. In view of the already high revenue-to-GDP ratio, limiting the deficit to a prudent level will mainly depend on reducing primary spending.

27. **The size of the adjustment is robust to alternative definitions of fiscal balance, but Mongolia's vulnerability to terms-of-trade shocks and natural disasters represent additional risks that have fiscal implications.** A large decline in commodity prices, especially gold and copper prices, would severely undermine Mongolia's fiscal position. Large revenue shortfalls would emerge as royalties and corporate income tax contributions and dividend payments from major SOEs begin to dry up. Therefore present fiscal policy should aim at accumulating assets during the present period of high copper prices in order to increase its ability to maintain expenditures and reduce the volatility of fiscal deficits when prices decline. Failure to adopt such a fiscal strategy could require substantial fiscal adjustment or lead to explosive debt dynamics as soon as copper prices decline. Also, it will be recalled that in the year 2001, Mongolia suffered a series of natural disasters. A summer drought and a harsh winter killed millions of farm animals, worsening the rate of poverty in rural communities and forcing the government to provide additional relief. The government needs to pursue prudent fiscal policies when revenues are robust, in order to preserve the ability to provide relief during disasters without causing macro imbalances.

II. CREDIT BOOM IN MONGOLIA¹

A. Introduction

1. **Bank loan expansion in Mongolia has been dramatic in the last four years.**² As of the end of 2004, loans to private sector reached a level 12 times higher than that at end-2000, representing an average annual increase of 87 percent. As a result, the ratio of bank loans to nominal GDP jumped up from below 5 percent to over 32 percent. The loan expansion in Mongolia can be interpreted as a sign for recovery from the past banking crisis as well as for financial deepening, which would be welcomed from the perspective of financial development and longer-term growth prospects.³

2. **However, the rapid expansion of bank loans also raises concerns.** In general, an excessive credit from banks tends to entail two types of risks, i.e., macroeconomic imbalances and prudential risks. In Mongolia, the macroeconomic impact of rapid loan expansion has been limited to date although there are risks that it could add to inflationary pressures in the future. From the prudential perspective, the banking sector experienced periods of rapid growth in non-performing loans (NPLs), which led to several banking crises in the 1990s. Taking into consideration the vulnerability of Mongolian economy to the external shocks, the recent pick up in the ratio of NPLs is a matter of some concern.

3. **This chapter will discuss several issues in connection with recent credit boom in Mongolia.** Section B looks into the credit boom in Mongolia in recent years with descriptions about loans by sectors and borrowers, by durations, and other terms. Section C examines the background factors for the credit boom. Section IV discusses the negative impacts of the boom, from the perspective of banking crisis in the past. The final section concludes the major finding and suggests policy recommendations.

B. Facts about the Recent Credit Boom in Mongolia

4. **Loan growth increased sharply in 2001, following the completion of a series of banking sector reforms after repeated banking crises in the 1990s.**⁴ Since the transition in early 1990s, the banking sector had experienced a number of crises and bank failures

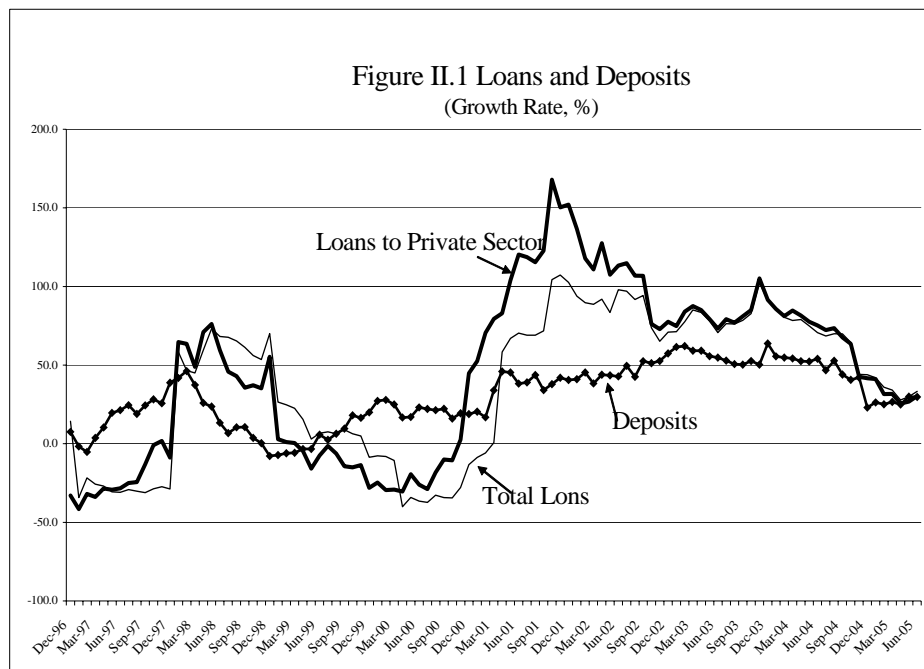
¹ This chapter was prepared by Jong Kyu Lee.

² The loan expansion was led by loans to private sector. Thus two terms, bank loan and loans to private sector, will be sometimes used with each other without any clear definition.

³ Levine (1997) summarizes the relationship between financial development and economic growth.

⁴ The exact timing of bank loans' switch to a rising trend is around the fourth quarter of 2000. But the year-on-year rate of growth became apparent in April 2001.

repeatedly—most notably in 1994, 1996 and 1998/99. Up to 2000, the stock of bank lending had remained in a range of 30-40 billion togrog. Since 2001, however, loan growth has been on a sustained rising trend. This timing of loan expansion coincided with the completion of banking sector reform measures.⁵ Thus, the Mongolian banking sector followed a transformation phase similar to those in transition countries, which involved a series of transition banking sector reforms—especially writing-off large NPLs to SOEs—and the beginning of more standard banking operations.⁶



5. **The pace of bank loan expansion since 2001 has by far exceeded the growth of other macroeconomic and banking system aggregates such as broad money, deposits and nominal GDP.** For example, during 2000-04, nominal GDP grew at average 15 percent and, as a consequence, the ratio of bank loans to nominal GDP jumped up to 30.8 percent at end-2004 from 4.5 percent at end-2000. Similarly, the growth rates of broad money and deposits were only half or one third of that of loans.

⁵ Those included, along with restructuring of ailing banks, improvements in banking skills, accounting standards, enforcement of financial contracts, divergence of the government from banking sector (including the divestiture of the government's ownership in the banks), and participation of foreign capital in the banking industry.

⁶ For the sequencing of banking developments in transition countries, please refer to Cottarelli, et al. (2003).

Table II.1. Comparison of Monetary Figures with GDP

		1995	2000	2004	Growth Rates (%)	
					1995-2000	2000-2004
Absolute Level (Bil. Tg)	Nominal GDP	550.3	1,018.9	1,791.2	13.1	15.1
	Broad Money	102.0	258.8	846.4	20.5	34.5
	Deposits	76.5	157.9	702.9	15.6	45.3
	Loans	46.0	45.5	552.0	-0.2	86.6
Ratios (%)	Broad Money/GDP	18.5	25.4	47.3		
	Deposits/GDP	13.9	15.5	39.2		
	Loans/GDP	8.4	4.5	30.8		

Source: BOM and Fund staff estimates.

6. **The acceleration in bank lending in Mongolia exceeds what has been experienced in most of the transition economies** (Table II.2). During the 2000–03 period, Mongolia recorded annual credit growth rate of 73.4 percent, second only to Belarus with 74.4 percent. However, whereas nominal GDP in Belarus grew by 58.8 percent during the period, nominal GDP in Mongolia increased by just 10.2 percent. As a consequence, the ratio of bank credit to nominal GDP in Mongolia rose drastically from 8.3 percent in 2000 to 32.5 percent in 2003, while Belarus recorded only a slight increase (from 8.9 percent to 11.7 percent) during the same period.

Table II.2. Credit Expansions in Transition and CIS Countries

		Ratio to GDP		Annual Growth Rate of Loans 2000-2003	Annual Growth Rate of Nominal GDP
		2000	2003		
Belarus	Loans	8.9	11.7	74.4	58.8
	Broad Money	17.7	16.9	56.4	
Bulgaria	Loans	12.6	27.5	41.3	8.9
	Broad Money	36.8	48.5	19.4	
Croatia	Loans	37.4	54.3	22.5	8.2
	Broad Money	47.6	66.5	20.9	
Estonia	Loans	23.9	33.2	23.4	10.7
	Broad Money	35.8	40.0	14.9	
Hungary	Loans	32.3	43.0	23.4	12.1
	Broad Money	45.4	48.0	14.2	
Kazakhstan	Loans	11.2	22.7	51.8	19.8
	Broad Money	15.2	20.9	33.2	
Latvia	Loans	17.2	34.6	39.6	10.5
	Broad Money	28.1	36.6	20.6	
Lithuania	Loans	11.4	20.4	30.1	7.3
	Broad Money	23.0	31.2	18.8	
Romania	Loans	7.2	9.5	46.2	33.3
	Broad Money	23.0	24.2	35.5	
Russia	Loans	13.3	21.0	42.0	21.8
	Broad Money	21.5	30.0	36.2	
Ukraine	Loans	11.2	24.7	50.8	15.7
	Broad Money	18.6	35.9	44.0	
Mongolia	Loans	8.3	32.5	73.4	10.2
	Broad Money	25.4	51.6	39.5	

Source: IMF, IFS.

7. **Most of the loan growth since 2001 has been for credits to individuals.** Table II.3 depicts loans by borrower type. The share of loans to individual rose from less than 20 percent of the total in the late 1990s to 35 percent at end-2004.⁷ Correspondingly, there have been declines in the share of the corporate sector, which nevertheless remains high (about 60 percent at end-2004), and in credit to the public sector, which fell from 11 percent of total loans in 2000 to 2 percent in 2004. The decline of the public sector's share in the credit market may be owing to the privatization of SOEs, and thus the crowding-in is one factor to stimulate loan expansion towards the private sector.⁸

	1998	1999	2000	2001	2002	2003	2004
Total loan	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Public</i>	14.4	11.3	11.8	10.6	5.1	4.2	2.2
<i>Private Entity</i>	72.1	74.5	72.3	67.0	64.5	58.1	57.8
<i>Foreigners</i>	7.0	5.6	6.8	4.8	3.6	11.2	4.3
<i>Non-government</i>	0.3	0.1	0.1	0.1	0.1	0.2	0.3
<i>Individual</i>	6.3	8.4	9.0	17.5	26.7	26.4	35.3

Source: BOM
Note: Discontinuity between years of 2001 and 2002.

8. **By sector, loans to non-industrial sector have led the overall loan expansion.** The share of loans to the non-industrial sector rose substantially in recent years, from 49 percent at end-2002 to 57 percent at end-2004. Wholesale and retail trade has been the main sources of the increase, although activities of immovable assets renting business have also increased in importance within the industrial sector. Agricultural and construction sectors increased their shares slightly, while the share of lending to mining and manufacturing fell significantly. These trends reflect in part the slowdown of economic activities in textile and garment industries, the largest manufacturing sector in the country.⁹ On the other hand, the decline of the mining sector's weight is linked to the improved financial positions of the companies in the sector as a result of high international prices for the products such as copper and gold. Currently the construction activities are very brisk both for housing and other types of buildings.

⁷ Similar cases can be found in transition countries such as Bulgaria, Romania and Ukraine (Duenwald, et al. 2005).

⁸ Crowding-in was also a stylized fact in transition countries (Cottarelli, et al. 2003 and Duenwald, et al. 2005).

⁹ This was largely owing to the removal of import quota by the US.

	1998	1999	2000	2001	2002	2003	2004
Total Loan	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial Sector	47.5	44.0	47.7	54.3	51.5	48.8	42.9
Agriculture & Fishing	2.0	2.1	2.6	2.4	4.1	7.0	4.7
Construction	3.3	2.3	3.5	5.1	6.2	6.6	8.6
Mining & Quarrying	21.4	17.2	18.8	15.7	15.4	11.9	8.3
Manufacturing, electricity & Water	20.9	22.4	22.7	31.1	25.7	23.3	21.2
Non-industrial Sector	52.5	56.0	52.3	45.7	48.5	51.2	57.1
Trade, Repair, etc.	48.1	52.2	45.9	41.5	43.5	44.6	49.4
Transport & Communication	1.3	0.6	4.3	0.8	2.9	2.9	2.9
Real Estate/Leasing	1.9	2.4	1.0	2.6	1.1	2.0	2.7
Health & Education	0.4	0.5	0.2	0.6	0.6	0.5	1.2
Finance	0.8	0.2	1.0	0.2	0.5	1.3	1.0

Source: BOM.

9. **The terms of loans are very short, usually with less than one year.**¹⁰ As shown in Table II.5, about 80 percent of the loans are under less than one year, while long term loans with maturity of five year or more take only 5 percent among total loans. The short term of loans partly reflects the seasonality of the economic activity in Mongolia. Due to the relatively longer winter season and harsh weather during the winter, the weather-affected economic activities such as those in agricultural and mining sector are conducted just for 5-6 months in a year, while suspending their operations during the winter season, which implies they don't need to borrow funds during this seasonal lull.¹¹ On the whole, market discipline is underdeveloped so that the borrowers do not have a strong incentive to repay the loans. In this situation, the banks have a tendency to set the terms of loans as short as possible in order to check the borrowers' intention and ability to repay the loans.¹²

¹⁰ This is an aspect of Mongolian credit boom quite different from those in other transition countries where the longer-term loans are getting higher shares in the recent credit boom period (please see Duenwald, et al. 2005).

¹¹ As the economy becomes more reliant on the economic activities that are not directly related to weather conditions, for example, services, the terms of loans are getting longer as we can see in Table II.4.

¹² In the meantime, the banks lack effective facilities/devices to monitor the borrowers during the loan period.

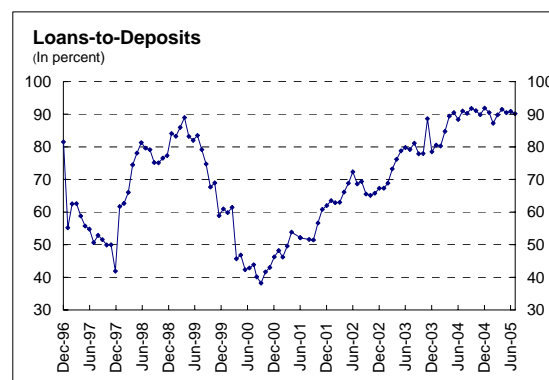
	1998	1999	2000	2001	2002	2003	2004
Standard Loan	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>up to 1 year</i>	91.8	95.5	95.2	94.7	91.0	76.3	78.8
<i>1-5 years</i>	8.2	4.5	3.7	4.1	5.8	21.2	16.6
<i>5 and more than</i>	0.0	0.0	1.1	1.2	3.2	2.5	4.6

Source: BOM

C. Background Factors

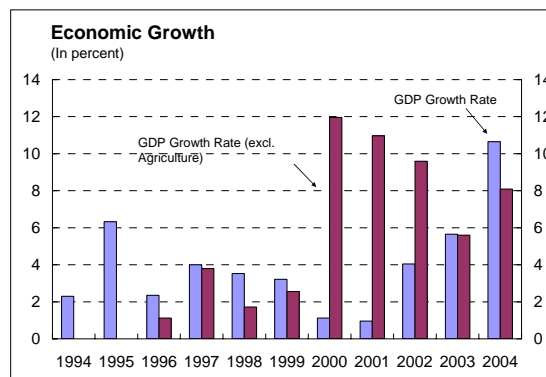
10. **The momentum of the current credit boom was bred in the period following the banking crisis.** In 1999, after a repetition of banking crises, the authorities adopted a comprehensive banking sector reform program with help of international financial institutions including the Fund. The reform measures included, along with improvements of insolvent banks' balance sheets, privatization of major banks, expanding the regulatory powers of the central bank, strengthening prudential regulations and supervision, strengthening creditors' rights, and other measures for financial market developments.¹³ Combined with economic recovery, these measures have been successful in restoring confidence in banking sector. In addition, the banks, which could not have conducted their given role as an intermediary due to huge amount of NPLs and disintermediation, began to revive their normal lending businesses as their balance sheets were cleaned up. The recent credit boom is linked to various factors such as catching-up of loans, economic recovery, a return of confidence in banking sector, strengthened bank balance sheets, a more competitive financial market structure, and inflows of foreign capital.

11. **The rapid expansion of bank lending relative to deposits is partly a catching-up from depressed levels during the banking crisis.** Looking at the trends of loans-to-deposit ratio as shown below, it dropped from 90 percent in early 1999 to below 40 percent in the latter half of 2000. The precipitous drop of this ratio indicates that, during the crisis, banks were very reluctant to provide new loans. Thereafter, however, the ratio gradually rose back to 90 percent in recent months as the financial markets recovered.



¹³ For details, please see IMF (1999).

12. **The recovery of economic activities in the industrial and service sectors since 2001 has been another important factor driving loan growth.** Up to 2001, the overall economic situation was gloomy because of a series of natural disasters (two severe summer droughts in 1999 and 2000 and two consecutive extremely harsh winters in 2000 and 2001, which led to the considerable losses of animal husbandry). However, the non-agricultural sector already began to recover in 2000. While the overall economic growth was merely 1 percent in both 2000 and 2001, the economic growth with exclusion of agricultural sector recorded 12 and 11 percent, respectively.¹⁴ Thereafter the economic growth began to accelerate up to over 10 percent in 2004.



13. **There has been a big improvement in the financial market conditions as a result of the authorities' comprehensive approach to banking sector reform following the 1998/1999 banking crisis.** Two major troubled banks were liquidated, three small banks had their licenses revoked and the government decided to privatize three state-owned banks.¹⁵ In addition, the authorities tried to upgrade the legal and regulatory framework for the banking system along with downsizing the banks for efficiency and raising the banks' minimum capital requirement.

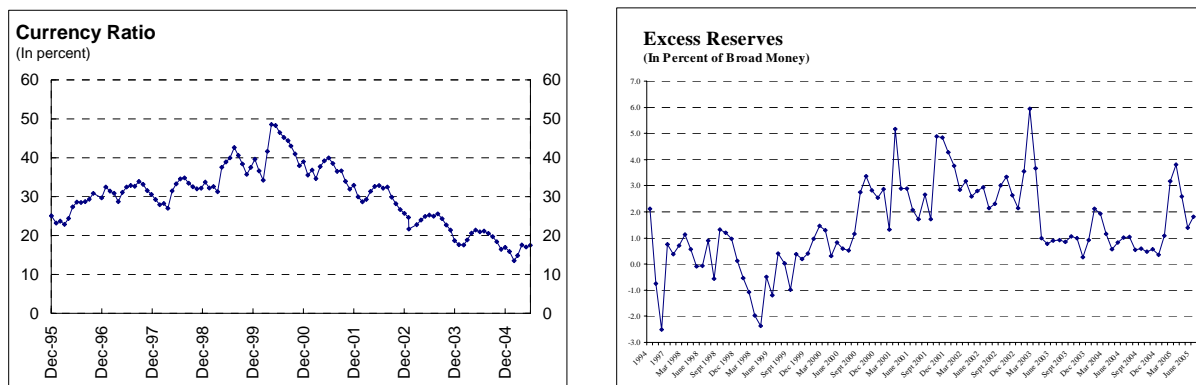
14. **As a consequence, the banking system began to regain the confidence of the depositors around mid-2000.** This can be confirmed by the trends of currency ratio (the ratio of currency to broad money). As shown below, the ratio had risen since mid-1990s up to 2000. The rise of currency ratio in the 1990s implies disintermediation that was affected by the repeated banking crises since 1993, as currency was preferred to deposits at banks. Since mid-2000, however, the trend has reverted to a secular decline, indicating reintermediation and an increased willingness to hold bank deposits and thus providing a base for the banks to increase their loans.

15. **As confidence in the banking sector was regained, the banks' liquidity position improved substantially.** The chart that follows depicts the trends of excess reserves of the banks, defined by a difference between required reserves and actual reserve holdings, as in

¹⁴ The economic recovery was owing to, in part, rebounded international prices for copper and cashmere, and the government's boosting, for example, the government provided low-cost loans to selected companies through the state-owned banks.

¹⁵ Among those, two banks, Agricultural Bank and TDB (Trade and Development Bank) have already been privatized, but the other, Savings Bank, is still under government's control.

percentage of broad money. While the ratio was negative or small positive figures until mid-2000, the ratio picked up to 2 percent and above since the end of 2000 throughout 2003.



16. **The effects of abundant liquidity holdings by the banks were compounded by competitive financial market structures.** At the end of 2000, 12 banks operated mainly for traditional loans.¹⁶ During 2001, three banks and over 200 Credit and Savings Cooperatives were established.¹⁷ Thus, the large number of financial institutions led to fierce competition between bank themselves and/or banks and non-bank financial institutions and to rapid growth in bank loans and deposits. Special factors also contributed to banking system loan growth. The November 2003 conversion of a financial institution from an NBFIs to a bank (Chinggis Khaan Bank) contributed almost 10 percentage points to the pickup in the rate of loan growth.

17. **From the demand side of loans, the loan expansion reflected the ongoing transition to a market economy, with the privatization of many SOEs and the development of new small retails businesses.** In this initial stage of transition, the small shop owners relied on external funds, especially from banks, to supplement the modest resources available from their personal savings, which is supported by the data showing rapid growth in credit to individuals. Another factor contributing to credit boom since 2001 has been the strong capital inflows, including foreign direct investment, official grants, and private remittances. This liquidity from abroad further fueled the upgraded capacity of banks' intermediation to level up their loans to private sector.

¹⁶ Since then, three more banks were licensed, of which one was permitted only to lend to foreign residents, without being able to receive deposits.

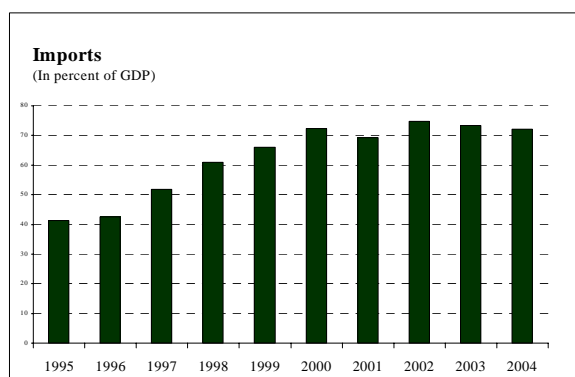
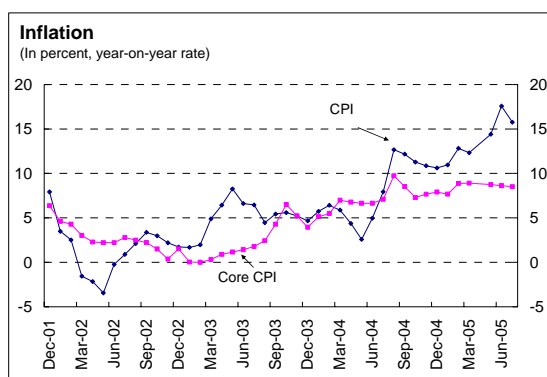
¹⁷ In 2002, one more bank entered the loan market by obtaining its license.

D. Its Impacts

18. **Credit booms may increase vulnerability of the economy through various channels.**¹⁸ The risks associated with credit booms can be broadly grouped into two categories: the emergence or worsening of macroeconomic imbalances—notably rising inflation and a deterioration in the balance of payments—and increasing microeconomic vulnerability due to a deterioration in bank asset quality. The two types of risks are closely intertwined, since the macroeconomic situation affects the bank asset quality while weak bank balance sheets, if they reach systemic proportions, can lead to macroeconomic instability.

Puzzle on Macroeconomic Perspective

19. **Although the bank loans, along with deposits, expanded rapidly in recent years, this has not – for the time, at least – resulted in significant macroeconomic instability.** While the inflation has been rising since mid-2002, the increase, thus far, has been modest relative to the high growth rate of loans and taking into account that some of the increased inflation has been the direct impact of supply-side price shocks, particularly for meat and petroleum products. Indeed, excluding such factors, the core inflation rate, as calculated by the authorities, has remained at around 8 percent over the past years. In addition, import demand has remained quite stable even after the acceleration of loan expansions. Figure 7 indicates that the ratio of imports (good and services, excluding petroleum) to nominal GDP has been declining since 2000. Furthermore, the major components of imports are not consumer goods, but capital goods for mining and construction sector.



20. **Similar type of puzzles has been found in several transition countries.** According to Cottarelli, et al. (2003), the puzzle reflects a financial deepening that will eventually benefit the economy, following a series of structural reforms during the transition period such

¹⁸ Of course, the lending boom may not be followed by severe crises, macroeconomic or banking distresses as Gourinchas, et al. (2001) argue. But the reason for looking here into the risks in relation to the recent credit boom is to heighten policy attentions from a conservative perspective.

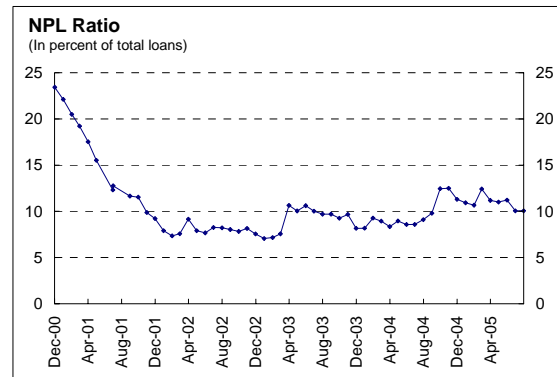
as privatization, public sector retrenchment, improvements of legislations to protect creditors' rights, and overall progress towards market institutions. In other words, the credit expansion can be interpreted as a shift of IS curve to the right, instead of LM curve, thus without causing many negative impacts on the economy.¹⁹

21. **While core inflation has so far increased only moderately, the credit boom has been evident in some important respects.** In particular, construction for housing is booming, house prices are rising sharply, financed, at least in part, by the abundant banking system liquidity and rapid loan growth to individuals.²⁰ As the Mongolian authorities allowed private ownership of real estate such as land and houses beginning in 2000, real estate can be used as collateral for the borrowings from banks (although collateralized lending has, so far, remained small).

22. **Moreover, inflation began to gain its acceleration in recent months.** While CPI inflation remained 5 percent level for 2-3 years since 2002, recently it picked up to two digit level, for example, 17.6 percent in June 2004. Although the higher international oil prices and reforms of domestic meat distribution pushed up overall consumer prices,²¹ the core inflation, which excludes meat, milk, and vegetables from the whole CPI basket, has risen up to 8 percent level in the first half of this year. This implies that the recent higher inflation might be pulled, at least in part, by demand factors, including an abundant liquidity formed through loan expansions.

Some Concerns from Prudential Perspective

23. **The credit boom raises some concerns from a prudential perspective.** As a result of successful restructuring following the 1998/1999 banking crisis, the non-performing loans in Mongolian banking sector decreased substantially, with the ratio of NPLs to total loans declining to lower 7 percent level in early 2001. Since then, however, the ratio has been rising. As of end-June 2005, the NPL ratio



¹⁹ Fries and Taci (2002) also expressed similarly a view that the revival of banking activities in the region was associated with progress in structural and institutional reforms.

²⁰ In Mongolia, the construction builders announce for a plan for housing lots and receive applications from the applicants who want to buy the lot after the completion. At the timing of application, the applicants are required to pay in advance the payments for the lots, with which the builders can begin their construction works. Thus this practice does not give any financial burdens for the builders to borrow funds from outsiders including banks.

²¹ Ulaanbaatar city ordered the slaughter houses to move out to suburban areas for health issues in 2004, which resulted in additional cost burdens for meat producers.

marked 11 percent, almost two times higher than the level at the beginning of loan expansions in 2001.²²

24. **By borrower type, the increase of NPLs is led by private business corporations and individuals, who absorb almost 90 percent of total loans.** The NPL ratios for loans to private entity rose from 7.0 percent in 2002 to 11.8 percent in 2004. In addition, the ratio for loans to individuals rose by more than two times up to 6.8 percent in 2004 from 3.2 percent in 2002.

	1998	1999	2000	2001	2002	2003	2004
<i>Average</i>	44.2	58.3	24.9	8.5	7.2	7.6	9.6
Public	10.6	39.3	9.7	3.5	14.3	10.9	0.3
Private Entity	52.9	64.1	26.3	9.5	7.0	9.4	11.8
Foreigners	19.7	36.4	25.0	17.2	29.2	3.6	8.2
Non-government	61.3	92.6	7.4	20.3	43.0	6.7	4.8
Individual	47.2	46.3	32.9	5.5	3.2	4.8	6.8

Source: BOM

25. **Although most banks have managed to remain adequately capitalized, the high level of NPLs increases the vulnerability of the banking system to adverse shocks, such as deterioration of terms of trade or political uncertainty.** Currently the total amount of NPLs is around 76 billion togrog, which is equivalent to 45 percent of total banking sector capital and 63 percent of paid-in capital. Furthermore, for a number of individual banks, the NPLs have eroded, fully in part or in total, their capital base.²³ In addition, the high NPLs have cut into the profitability of the banking system. For example, return on asset has declined from around 4 percent in 2000 to 2½ percent in 2004. The lower profitability is another indicator for the higher vulnerability of the banks.

26. **Moreover, there are reasons to think that the level of officially report NPLs might understate the actual amount.** As noted earlier, most loans are at terms of less than one year, and NPLs will be identified only after the completion of loan period. Accordingly, NPLs that may be in the pipeline from loans extended in 2004 have generally not yet been recorded. In addition, the practice of roll-overs of loans is another factor that makes the NPLs level underestimated. In Mongolia, most loans are revolved almost automatically upon the

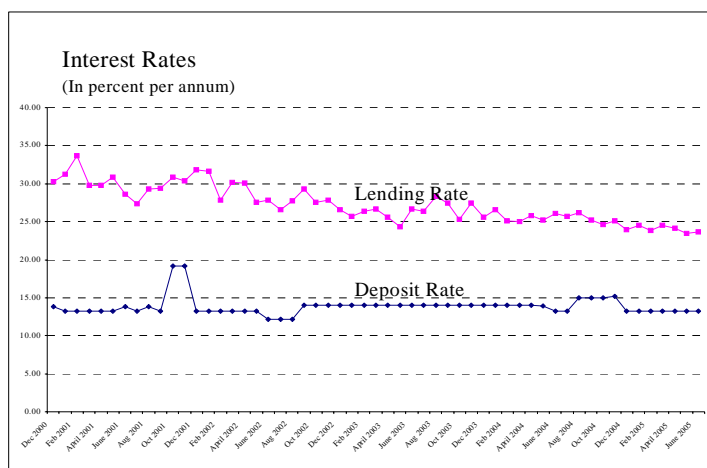
²² In this paper, the NPLs include past due loans, while the authority's official statistics on NPLs excludes past due loans since October 2004.

²³ Minimum capital requirement will be raised up to 8 billion togrog in 2006 from the current 4 billion togrog.

request of loan renewal from borrowers, without any additional scrutiny about the creditworthiness of the borrowers. This practice brings in a delay in detecting NPLs and gives a basis for the judgment on underestimation of NPLs.

27. **The high level of NPLs is also one of factors that have kept the spread between deposit and loan interest rates very high at around 10 percentage points.** It can be

viewed that the high level of NPLs is one of the major obstacles to preventing the lending rates from declining further. In addition, the high levels of lending rates and NPLs can set in motion a vicious cycle and, potentially, financial instability. Given that the rates of returns on the borrowers' projects are fixed, the higher lending rates over a certain threshold level lead to a greater probability of defaults by the borrowers, which result in



more NPLs and thus more losses. In turn, the banks have to raise the lending rates to cover up the losses from the higher NPLs, but, in the end, causing more NPLs.

E. Concluding Remarks

28. **The rapid rate of loan expansion in Mongolia during the period 2001-04 seems to reflect, on the whole, a process of financial deepening, increased financial intermediation and catching-up from the low level of bank lending following a series of banking crises in the 1990s.** Nevertheless, it is a cause for concern that the still less-developed fragile banking system has accumulated relatively large amount of NPLs in light of current credit boom.

29. **Considering the interactions between macroeconomic risks and prudential risks from credit boom and the uptick in the headline (unadjusted) inflation rate need to be given attentions from the policy makers.** In the near term, it would be desirable to rein the bank lending through monetary policy measures, which aims at slowdown of loan expansion pace. At the same time, the authority should strengthen prudential supervisions over the financial institutions.

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III. DEVELOPMENTS IN TRADE AND IMPACTS OF ELIMINATING TEXTILE QUOTAS¹

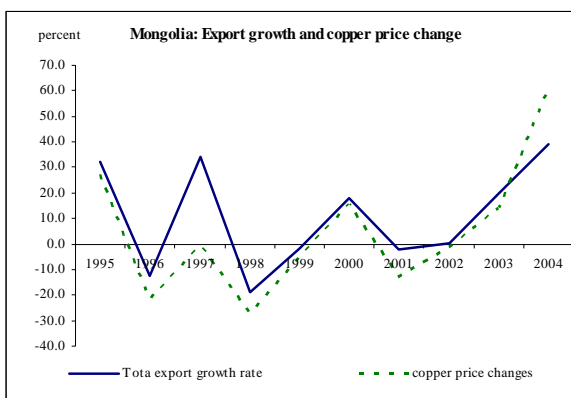
1. With the completion of the phased elimination of import restrictions on textiles and clothing (TC), concerns about impacts on Mongolia's exports have increased. All remaining quotas under the Multifibre Agreement (MFA) were removed at the beginning of 2005, completing a phased process, which had started in 1995. As the lifting of restrictions under the phased program was backloaded, the consequences for the Mongolian economy are expected to be larger than those at the previous stages of quota elimination.

2. **This chapter takes a closer look at how the lifting of MFA restrictions might affect the Mongolian economy. Our analysis mainly focuses on garment exports to the U.S. market, which is the most important destination for Mongolia.** Garments have become a major export product over the past several years, accounting for 20 percent of total exports in 2004.² As Mongolia had quota free access to the market of United States and European Union, Mongolia's accessibility to these markets remains unchanged after the quota elimination. Relative to other exporters that had been subject to quotas in the major importing countries, however, Mongolia's competitiveness in garment exporting would tend to be reduced.

3. **This chapter concludes that MFA quota elimination is likely to have a significant adverse impact on Mongolian garment exports.** In particular, Mongolia's garment exports to the U.S. market would fall sharply over a relatively short period of time, leaving copper and gold as the only two major export products. Given the large fluctuations of international prices of these two products, promoting other exports would become increasingly important to reduce vulnerability to terms of trade shocks. Section A discusses recent developments in exports, then Section B describes the recent development of the garment sector. Section C discusses the impacts of quota elimination, and Section D lays out the challenges for the external sector. Section E concludes.

A. Background on Mongolia's Development of Exports

4. **Mongolia relies heavily on international trade, but its export base is narrow and commodity-based.** Mongolia's strong commitment to the WTO agreement³ and its open trade regime, with low uniform level of import tariff and a limited number of export taxes,



¹ This chapter was prepared by Yo Kikuchi.

² Net exports were significantly smaller, given the use of imported raw materials.

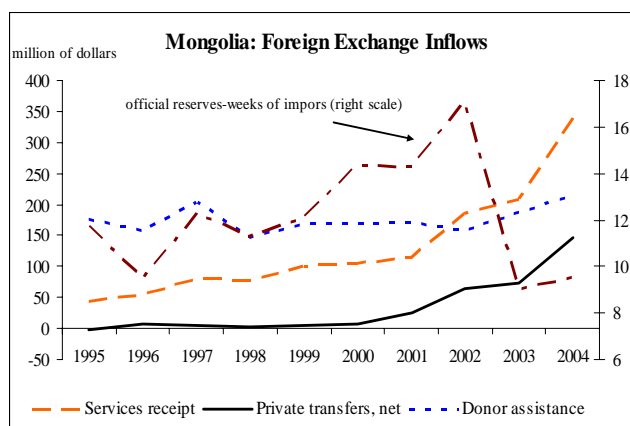
³ Mongolia became a member of the WTO in 1997.

have laid ground for recent strong economic performance. Total trade (exports plus imports) has reached around 130-140 percent of GDP since 2000, which is among the highest in Asia. However, a large proportion of total exports consist of just a few products. Copper, which was developed with substantial assistance and participation of the former Soviet Union, continues to be the most important export product, making Mongolia's export performance highly vulnerable to copper price fluctuations. Exploitation of the country's significant gold deposits largely got underway in the early 1990s. Recently, these two products have accounted for more than half of Mongolia's total export (60 percent in 2004). In addition, garments (including cashmere) have become a major export product—especially, the share of non-cashmere garments in total export reached 11 percent in 2004.

5. **In geographical terms, whereas the Soviet Union was the dominant trade partner before the economic transition of 1990s, China has emerged in recent years as a major trading partner.** The shares of export and import to China are 48 percent and 25 percent respectively in 2004. Exports to G7 countries, mainly the United States, are also significant, at more than 30 percent of share in recent years. This partly reflects an increase in non-cashmere garment export to the United States. The Russian Federation remains a key trading partner even during the transitional period because of Mongolia's continued dependence of energy imports from Russia and the joint Mongolian/Russian ownership of the large Erdenet Copper Mine.

6. **Despite the narrow export base and commodity price fluctuations, Mongolia's overall balance of payment has been relatively stable.**

This performance largely reflected a thriving service sector, a sharp increase in unrequited private transfer (i.e. workers' remittances), and donor support through loans and grants. Service receipts, mainly in the tourism industry, increased at an average annual growth rate of 25 percent from 1995 to 2004. Workers' remittances from the increasing numbers of Mongolians living in China, Korea, and the United States have also become important sources of foreign cash inflow.⁴ Donor assistance has averaged around 16 percent of GDP every year, reaching US\$216 million in 2004. Loans are mostly provided by the World Bank, the Asian Development Bank, and Japan with concessional terms, while grants are largely from other bilateral donors. As a result, Mongolia's level of official foreign reserves increased from 9 weeks of imports in 1996 to 17 weeks in 2002, despite large volatility in copper prices. The settlement



⁴ The data compiled by the Bank of Mongolia reflect transactions through formal banking systems. The actual foreign cash inflows in Mongolia would be much larger as there are active suitcase transactions crossing borders.

of pre-1991 Russian debt resulted in a sharp decline of the reserves to 9 weeks again in 2003, but a boom in copper exports helped the government reconstitute its reserves in 2004.

7. **Mongolia's balance of payments has also been strongly influenced by the developments in the garment sector.** As the world's second largest producer of raw cashmere, cashmere garments initially played a key role in the initial development of the garment sector. Cashmere exports, however, fluctuated due to unsatisfactory government policies together with a series of external shocks such as unfavorable economic conditions during the transition in early 1990s, the Asian crisis in late 1990s, and unstable weather conditions.⁵ On the other hand, foreign direct investment in the non-cashmere garment sector started in late 1990s, and the industry has since developed into a key export sector, overtaking cashmere, with annual sales on the order of US\$100 million.

Table III.1 Mongolia: Garment Exports													
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	(in millions of US dollar)												
Total Exports	356	366	367	485	423	569	462	454	536	523	524	627	872
Total garment exports	58	33	41	58	60	85	63	97	172	114	81	119	176
o/w non-cashmere	8	0	0	0	0	26	24	18	73	44	35	75	96
o/w cashmere	50	33	41	58	60	59	39	78	98	70	46	45	80
	(in percent of total export)												
Total garment exports	16.2	8.9	11.2	11.9	14.2	15.0	13.5	21.3	32.0	21.9	15.4	19.0	20.2
o/w non-cashmere	2.2	0.0	0.0	0.0	0.0	4.6	5.1	4.1	13.7	8.4	6.6	11.9	11.1
o/w cashmere	13.9	8.9	11.2	11.9	14.2	10.4	8.4	17.2	18.4	13.4	8.8	7.1	9.1
	(in percent of GDP)												
Total garment exports	4.4	5.8	4.7	4.7	5.1	8.1	6.4	10.7	18.1	11.3	7.2	9.4	11.6
o/w non-cashmere	0.6	0.0	0.0	0.0	0.0	2.5	2.4	2.0	7.7	4.3	3.1	5.9	6.4
o/w cashmere	3.8	5.8	4.7	4.7	5.1	5.6	4.0	8.6	10.4	6.9	4.1	3.5	5.3

Source: The Bank of Mongolia and Fund staff estimates.

B. Developments in the Non-Cashmere Garment Sector

8. **The expansion of non-cashmere garment exports was led by foreign direct investment by Chinese textile companies.** Chinese exports to the United States and the European Union were restricted by garment quotas under the MFA. Since Mongolia had quota free access of its garment export to the United States and the European Union, foreign exporters who were facing restrictive quotas had incentives to locate their production facilities into Mongolia. In addition, Mongolia was in a favorable position compared to other low income countries in Asia as the U.S. and E.U. also put quota restrictions on the import from those countries under the MFA.⁶

⁵ See World Bank (2003).

⁶ Those countries included Bangladesh, Cambodia, Vietnam, and Sri Lanka.

9. **Almost all of the approximately 100 companies in the non-cashmere garment sector have benefited from significant foreign investment.** China accounts for the largest number (37 percent), followed by Korea (19 percent), Hong Kong SAR (13 percent), and Taiwan Province of China (8 percent)). These companies are taking advantage of the absence of the U.S. quota restrictions on garment imports. In 2003, 98 percent (US\$78 million) of Mongolia's sewn clothing exports and 37 percent (US\$ 13 million) of knitted clothing exports were sent to the U.S. market.

10. **Non-cashmere garment exports have declined substantially since 2002 with the third and final phase of quota elimination.** The MFA quotas were to be phased out progressively over the 10-year period, starting in 1995.⁷ The integration under the third phase was only 18 percent of WTO members' garment imports in 1990. Major affected categories were cotton apparel, silk knitted shirts/blouses, and silk trousers/shorts. The export value of these products from Mongolia was halved to US\$ 4.3 million in 2002 from US\$ 10 million in the previous year. The remaining integration in the final phase, which started at the beginning of 2005, amounted to a maximum of 49 percent.

11. **China's quota utilization rates were high for the major categories in which Mongolia concentrated its exports to the U.S. market.** High quota utilization rates

generally mean that China's exports to the quota imposed markets are competitive but restricted. Therefore, Chinese foreign direct investment is likely motivated primarily by quota restrictions on these products.

	2003	2004	share in 2004	China's quota utilization rate in 2004
	(millions of US dollars)		(percent)	(percent)
338 Knit Shirts,MB	12	19	8.3	92.7
339 W/G Knit Blous	39	40	17.4	92.7
345 Cotton Sweater	21	11	4.6	95.4
348 W/G Slacks, et	46	44	19.3	83.4
445 Wool Sweater,M	3	11	5.0	93.4
446 Wool Sweater,W	8	30	13.2	93.4
other	52	74	32.1	
Total garment	181	229	100	

Sources: US-OTEXA, and chinaquota.com

⁷ See Mlachila and Yang (2004)

C. Effects of the Final Quota Elimination

12. **In the first half of 2005, Mongolian garment exports to the United States declined by 27 percent in value terms, and 37 percent in volume terms compared with a year earlier.** Almost all the categories indicate substantial declined, including one showing complete shutdown. These numbers are consistent with reported observations of Chinese investors suspending operations in Mongolia, either temporally or permanently. Conversely, garment exports from China have grown rapidly since the final phase of the quota

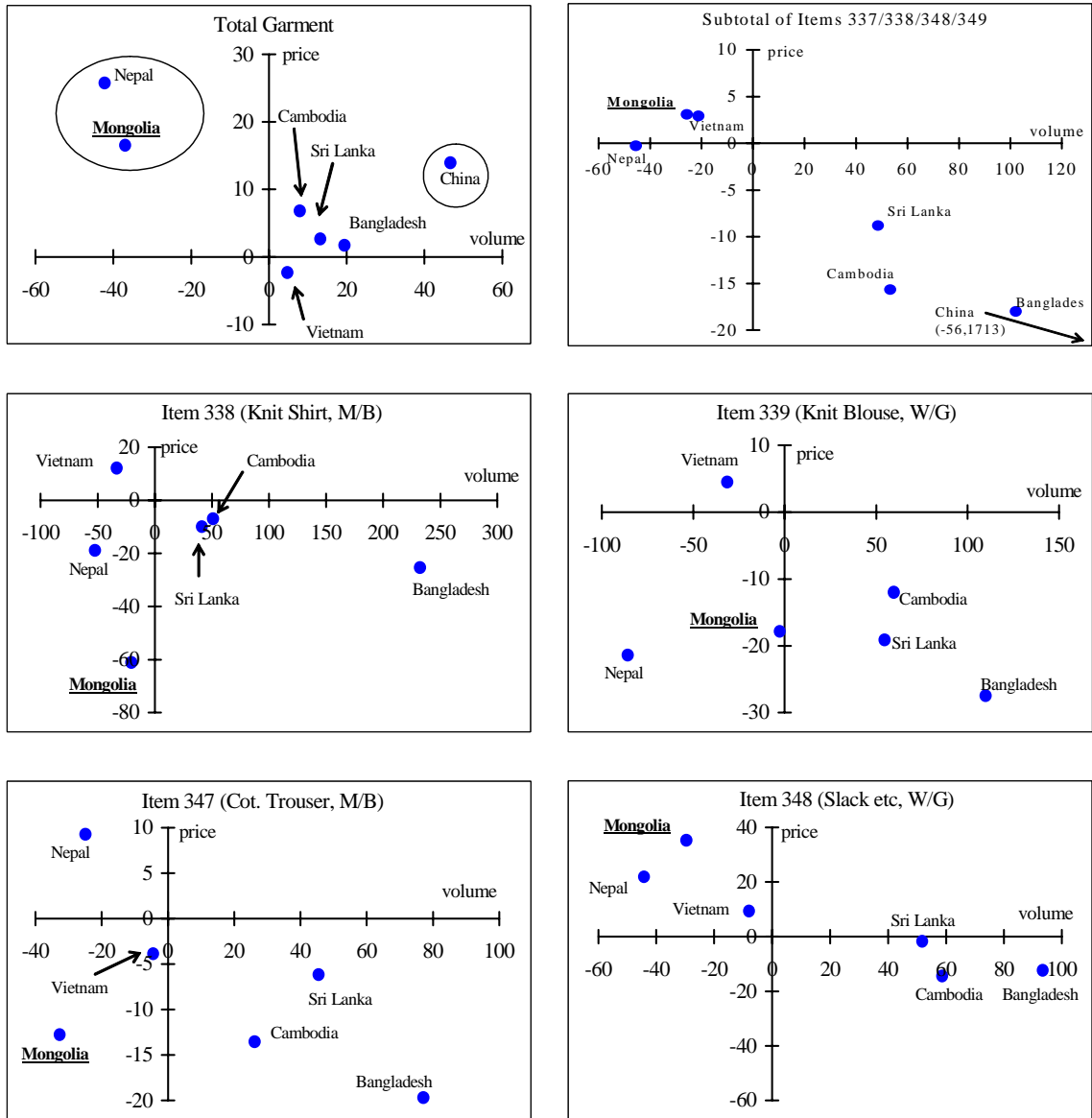
elimination. The U.S. garment imports from China increased by over 40 percent in volume terms during the first half of 2005, while imports from Mongolia (and one other Asian exporter—Nepal) fell by more than one third. Contrary to initial expectations, garment exports from a number of other Asian producers have also increased.⁸ For example, Cambodia, where most of garment producers are foreign owned, increased its export to the United States by 15 percent in the first half of 2005.

Table III.3. Mongolian Garment Exports to the US				
unit: in million of dollars	2004	2005	value	volume
	Jan-Jun	Jan-Jun	change	change
338 Knit Shirts,MB	9	3	-69.1	-20.4
share in total	13.0	5.5		
339 W/G Knit Blouse	12	10	-20.1	-2.8
share in total	17.0	18.5		
347 Cot.M/B Trouser	3	2	-40.0	-38.0
share in total	4.5	3.7		
348 W/G Slacks, etc	23	22	-4.7	-29.6
share in total	32.9	42.6		
Sub-total	48	37	-23.4	-25.7
share in total	67.5	70.3		
Total garment export	71	52	-26.5	-37.0

Source: US OTEXA
 Note: The products included in the safeguard are i) cotton knit shirts and blouses (Category 338/339), ii) cotton trousers (Category 347/348), and iii) cotton and man-made fiber underwear (Category 352/652). Mongolia does not export the products in category 352/652.

⁸ Only a handful countries such as China, India, and Pakistan were expected to end up reaping the benefit of quota elimination (For example, see IMF (2005)).

Figure III.1 Volume and Price Changes of Garment Exports to the United States from Selected Asian Low Income Countries in the First Half of 2005



13. In light of the surging imports from China, in May 2005 the government of the United States announced its decision to impose safeguard limits on the amount of garments imported of three categories from China. These categories were cotton knit shirts and blouses (category 338/339), cotton trousers (category 347/348), and cotton and

man-made fiber underwear (category 352/652). Two of these categories (338/339 and 347/348) represented about 70 percent of Mongolian garment export to the United States. This safeguard action allows exports from China in the three categories to increase by only 7.5 percent annually. The question, therefore, is whether Chinese investors will maintain or even expand their Mongolia operations to escape the current or possible future safeguard actions in foreign markets.

14. **Government actions have not successfully arrested the declining garment exports.** The government has taken decisions to mitigate the impacts of quota elimination. Two major actions have already been taken: i) halving the level of social security contributions by employers for affected firms, from the current 19 percent of the wage bill, and ii) exempting the import tax on raw materials for garment products. The government also plans to establish a textile industrial park in Ulaanbaatar, and intends to take as-yet unspecified measures to promote diversification in the sector. In addition, the government is trying to obtain a favorable bilateral treatment from the European Union.

D. Challenges for Policymakers

15. **Because Mongolia's garment sector relies heavily on imported raw materials, the net impacts of the sector on the balance of payments and GDP are still relatively small.** Almost all of Mongolia's non-cashmere garment exports are made from imported materials, whose share against the export value is estimated to be more than 70 percent. Therefore, the share of GDP is also very small—perhaps less than 2 percent, and the net impact of trade balance would not be substantial. Given this relatively small sized and current favorable international commodity markets, Mongolia would not face a major balance of payment risk from the decline in garment exports.

16. **However, the social and employment impacts could be serious.** The number of full-time workers (mostly women) in the non-cashmere garment sector declined to 13,800 as of April 2005 from 18,400 as of April last year due to the closure of factories. The government needs to facilitate the transition of these workers so that they could be absorbed in other sectors, where Mongolia is likely to have a more durable comparative advantage, based on its rich endowments with minerals resources and cashmere. Given that different skills are required even in the cashmere sector, the unemployed workers would need to be provided with necessary training.

17. **Continuing efforts are therefore needed to ensure that Mongolia is able to benefit from its areas of comparative advantage and to respond flexibly to changes in the international environment.** Development of mineral industries with large reserve potentials continues to be a major engine of economic growth in Mongolia. The exploration has just started. In order to attract foreign direct investment for mineral development, it is critically important to maintain a stable and predictable legal and regulatory framework. The potential of cashmere industry is high, but not fully exploited. A recent study by the World Bank identified a series of shortcomings in the cashmere sectors, including supply distortions, inadequate marketing and distribution systems, and weak public and private

institutional capacity to guide the industry's development.⁹ A current proposal to impose new export tariffs on low cashmere would not be consistent with Mongolia's open trade strategies and could introduce additional distortions. The government, therefore, needs to promote market-oriented strategies to support efficient cashmere market development.

18. Mongolia's large territory, its landlocked position, the small size of the domestic market, and often harsh weather conditions all pose particular challenges for policymakers. Over the medium term, therefore, further investment will be needed to upgrade the country's infrastructure. Given the large scale and very high cost of such investments, it will be crucial for Mongolia to set coherent investment priorities and to obtain advice and financing for such projects from multilateral and bilateral donors on concessional terms.¹⁰

E. Conclusions

19. The impacts of MFA quota elimination on Mongolia are likely to be substantial and greater than in most other Asian countries, calling for strong action to offset the decline. While some of the neighboring Asian countries have managed to increase their garment exports even after the quota elimination, Mongolia's non-cashmere garment exports have suffered a major decline. In the longer term, Mongolia has very limited rationale for a garment industry reliant on imported raw materials, far from the main market, and with high transport costs. Mongolia therefore needs to lay the foundations for the exploitation of its areas of comparative advantage—such as mineral resources, cashmere, and new areas like tourism—through the maintenance of market-oriented policies to enable the private sector to respond flexibly to changes in the international environment, the careful identification of public investment priorities, and a continued reliance on concessional foreign financing, supported by an open environment for foreign direct investment. The windfall of higher international commodity prices provides only temporary breathing room for Mongolia. It is imperative to make good use of this breathing space to improve a business environment that creates opportunities to invite foreign investors in various industries.

⁹ World Bank (2003).

¹⁰ Mongolia is trying to replace historical bilateral cross-boarder agreements with China and Russia with new transit transport framework agreements that cover all road transport (WTO (2005)).

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Table 1. Mongolia: Selected Economic and Financial Indicators, 1999–2004

	1999	2000	2001	2002	2003 1/	2004 Est.
	(Percent change)					
Real GDP	3.2	1.1	1.0	4.0	5.6	10.6
Consumer prices (end period)	10.0	8.1	7.9	1.7	4.7	10.6
	(In percent of GDP)					
General government revenue	27.2	34.5	38.5	38.4	37.9	39.4
General government expenditure	39.4	41.5	43.9	44.4	42.1	41.7
Current balance	-0.2	3.2	4.8	4.4	7.6	9.2
Primary balance	-10.3	-5.2	-3.9	-4.3	-3.0	-1.0
Overall balance	-12.2	-7.0	-5.4	-5.9	-4.2	-2.2
Net domestic bank credit to government	0.0	-0.7	-1.7	-2.2	9.5	-3.2
Total public debt 2/ 3/	104.7	98.8	89.1	91.7	113.9	99.0
NPV of total public debt 2/ 3/ 4/	74.8	67.0	62.8	62.7	80.2	60.2
Domestic debt	8.7	8.7	4.8	3.0	14.9	8.1
	(Percent change)					
Net foreign assets	96.9	33.6	8.9	40.1	-24.9	22.0
Net domestic assets	-23.6	-17.9	96.1	45.4	191.6	19.5
Domestic credit	-11.1	-8.0	41.6	43.2	147.0	23.0
Broad money	31.7	17.5	28.0	41.9	49.7	20.3
Reserve money	51.8	19.4	8.4	21.7	14.7	16.8
Broad money velocity (GDP/BM) 5/	4.3	4.0	3.4	2.6	2.1	2.1
Annual interest rate on central bank bills (percent) 6/	11.4	8.5	8.8	8.0	15.0	15.8
	(In millions of US dollars; unless otherwise indicated)					
Current account balance, including official transfers 7/	-60	-54	-77	-108	-99	18
(In percent of GDP)	-6.7	-5.7	-7.6	-9.6	-7.7	1.2
Trade balance	-113	-140	-170	-229	-199	-149
(In percent of GDP)	-12.5	-14.8	-16.7	-20.5	-15.6	-9.8
Exports, fob	454	536	523	524	627	872
(Percent change)	-1.8	18.0	-2.4	3.2	19.7	39.0
<i>Of which:</i> Gold	96	70	75	118	157	240
Copper	119	160	147	140	162	284
Imports, cif	567	676	-693	753	827	1,021
(Percent change)	-2.6	19.2	2.5	8.6	9.8	23.5
Financial and capital account balance 7/	75	88	92	174	1	11
Foreign Direct Investment	34	40	43	78	132	93
Gross official international reserves (end-period) 8/	157	191	207	271	178	205
(In months of next year/projected imports c.i.f.)	2.8	3.3	3.3	3.9	2.1	2.2
Public and publicly guaranteed external debt 2/	828	837	854	978	1,237	1,360
(In percent of GDP)	95.9	90.1	84.3	88.7	99.1	90.9
NPV of public and publicly guaranteed external debt 2/ 3/ 4/	571	542	587	658	816	822
(In percent of GDP)	63.0	57.3	57.7	59.7	65.3	54.9
(In percent of exports of goods & services)	102.8	85.1	91.7	92.9	97.7	67.9
Debt service	31.9	24.1	33.9	32.0	284.0	91.1
(In percent of exports of goods & services)	5.7	3.8	5.3	4.5	34.0	7.5
Exchange rate						
Togrogs per US dollar (end of period)	1,072	1,097	1,102	1,125	1,170	1,209
Trade prices						
Export prices (U.S. dollar, percent change)	-7.0	13.6	-11.6	-4.7	6.6	23.1
Import prices (U.S. dollar, percent change)	-2.4	2.5	-2.3	2.3	5.4	15.1
Nominal GDP (billion togrogs)	925	1,019	1,116	1,241	1,461	1,808
Nominal GDP (million U.S. dollars)	906	946	1,016	1,118	1,274	1,516

Sources: Mongolian authorities; and Fund staff estimates and projections.

1/ The outturn for 2003 reflects the impact on fiscal, monetary and external accounts of the \$250 million settlement of the TR debt.

2/ Includes IMF loans, guarantees and arrears.

3/ Includes treasury bills outstanding, and gross claims of the BoM on the government.

4/ Calculated based on 5 percent discount rate from 2004 onwards.

5/ Seasonally adjusted figures for broad money velocity.

6/ Annualized yield on end-period auction of 14-day bills.

7/ Includes errors and omissions. From 2004 onwards, revised estimates for remittances in the current account, offset by adjustments mainly in capital account.

8/ Beginning December 2000, includes commercial banks' foreign exchange deposits with the Bank of Mongolia.

Table 2. Mongolia: Gross Domestic Product, 1999–2004
(At current prices)

	1999	2000	2001	2002	2003	2004
(In billions of togrogs)						
Gross domestic product	925.3	1,018.9	1,115.6	1,240.8	1,461.2	1,808.0
Industry	168.5	204.3	223.9	250.7	325.5	462.8
Agriculture	342.1	296.5	277.6	256.6	293.4	385.7
Construction	23.0	19.3	21.9	29.0	44.8	47.0
Transportation	62.4	83.1	107.2	140.0	154.9	175.0
Communications	22.3	29.1	37.7	42.8	47.8	54.0
Trade	191.7	244.6	297.8	344.0	387.1	445.5
Services	115.4	142.0	149.4	177.7	207.7	237.9
Net factor income from abroad	-4.0	-5.6	31.7	66.5	72.0	160.2
Gross national product	921.3	1,013.3	1,147.4	1,307.3	1,533.2	1,968.2
(In percent of GDP)						
GDP	100.0	100.0	100.0	100.0	100.0	100.0
Industry	18.2	20.1	20.1	20.2	22.3	25.6
Agriculture	37.0	29.1	24.9	20.7	20.1	21.3
Construction	2.5	1.9	2.0	2.3	3.1	2.6
Transportation	6.7	8.2	9.6	11.3	10.6	9.7
Communications	2.4	2.9	3.4	3.4	3.3	3.0
Trade	20.7	24.0	26.7	27.7	26.5	24.6
Services	12.5	13.9	13.4	14.3	14.2	13.2

Sources: National Statistical Office, and Ministry of Finance and Economy.

Table 3. Mongolia: Gross Domestic Product, 1999–2004
(At 2000 constant prices)

	1999	2000	2001	2002	2003	2004
(In billions of togrogs)						
Gross domestic product	1,008.2	1,018.9	1,029.5	1,070.7	1,130.3	1,250.0
Industry	200.3	204.3	236.5	243.0	244.9	287.6
Agriculture	352.6	296.5	242.1	212.0	222.3	266.4
Construction	22.6	19.3	21.7	24.9	36.0	36.4
Transportation	71.7	83.1	95.5	113.5	126.7	141.4
Communication	21.0	29.1	31.2	33.3	36.4	37.7
Trade	196.5	244.6	265.6	299.4	320.8	333.3
Services	143.5	142.0	137.0	144.6	143.3	147.2
Net factor income from abroad	-4.4	-5.6	29.3	57.4	55.7	110.8
Gross national product	1,003.9	1,013.3	1,058.8	1,128.1	1,186.0	1,360.7
(Percent change)						
GDP growth	3.2	1.1	1.0	4.0	5.6	10.6
Industry	1.6	2.0	15.8	2.7	0.8	17.4
Agriculture	4.4	-15.9	-18.3	-12.4	4.9	19.9
Construction	1.6	-14.6	12.4	14.9	44.2	1.3
Transportation	-0.9	15.9	14.9	18.9	11.7	11.5
Communication	11.3	38.4	7.1	6.7	9.3	3.7
Trade	0.6	24.5	8.6	12.8	7.1	3.9
Services	8.0	-1.1	-3.5	5.5	-0.9	2.8
Net factor income from abroad	4,541.5	28.5	-622.4	96.1	-3.0	98.9
Gross national product	2.8	0.9	4.5	6.5	5.1	14.7

Sources: National Statistical Office, and Ministry of Finance and Economy.

Table 4. Mongolia: Output of Major Agricultural Products, 1999–2004

	1999	2000	2001	2002	2003	2004
(In thousands of metric tons, unless otherwise specified)						
Meat	599.1	639.2	468.1	413.1	318.1	424.5
Milk (million tons)	467.0	375.6	290.3	276.6	292.4	328.6
Dairy products (tons)	36.5	24.9	17.7	...	...	...
Eggs (millions)	9.6	6.7	7.7	4.2	7.1	16.0
Wool	20.9	21.7	19.8	17.0	15.2	15.3
Wheat	169.5	142.0	138.7	123.1	160.4	135.6
Cereals	169.5	142.1	142.2	125.9	165.0	138.5
Potatoes	6.7	58.8	58.3	51.9	78.7	80.2
Other vegetables	45.6	38.9	44.5	39.7	59.6	49.2
(In millions of head)						
Livestock	33.5	30.1	26.1	23.9	25.5	28.0
Sheep	15.2	13.8	11.9	10.6	10.8	11.7
Goats	11.0	10.2	9.6	9.1	10.7	12.2
Cattle	3.8	3.1	2.1	1.9	1.8	1.8
Horses	3.2	2.6	2.2	2.0	1.9	2.0
Camels	0.3	0.3	0.3	0.3	0.3	0.3
(Percent change)						
Meat	8.1	6.7	-26.8	-11.8	-23.0	33.5
Milk	8.4	-19.6	-22.7	-4.7	5.7	12.4
Diary products	-64.9	-31.8	-28.9	...	...	...
Eggs	12.9	-30.2	14.9	-45.5	69.1	125.3
Wool	-19.6	3.8	-8.8	-14.1	-10.6	0.6
Cereals	-13.1	-16.2	0.1	-11.5	31.0	-16.1
Potatoes	-89.7	777.6	-0.9	-10.9	51.6	1.9
Other vegetables	34.1	-14.7	14.4	-10.8	50.1	-17.5
(In percent of total head)						
Memorandum item:						
Privately owned livestock	96.2	96.7	97.2	97.4	97.9	98.2

Sources: National Statistical Office, and Ministry of Finance and Economy.

Table 5. Mongolia: Output of Basic Industrial and Mining Products, 1999–2004
(In thousands of metric tons, unless otherwise specified)

	1999	2000	2001	2002	2003	2004
Electricity (million kilowatt hours)	2,842	2,946	3,010	3,112	3,138	3,304
Coal	4,964	5,185	5,337	5,693	5,824	7,092
Fluorspar	597	734	585	514	488	468
Copper concentrate	362	358	381	376	372	371
Gold concentrate (kilograms)	10,246	11,808	13,700	12,097	11,119	19,418
Bricks (millions)	17	17	21	13	23	13
Cement	104	92	68	148	162	62
Lime	50	37	30	43	42	30
Sawn timber (thousand of cubic meters)	16	15	21	10	17	18
Scoured wool	1	1	2	1	1	2
Felt (thousand meters)	102	114	111	113	303	68
Woolen fabrics (thousand meters)	19	21	38	32	55	59
Coats (thousands)	0	0	0	...	...	...
Suits (thousands)	9	14	16	...	...	...
Leather footwear (thousand pairs)	7	6	17	10	5	3
Sheepskin coats (thousands)	0	1	2	...	...	...
Meat (excluding pork)	4	6	12	7	11	4
Sausages	439	755	728	951	1,171	1,272
Flour	67	40	38	50	54	58
Bakery goods	15	20	23	22	22	23
Confectionery	8	8	7	6	7	7
Milk and dairy products (liters)	2	2	1	3	5	6
Toilet soap	71	60	0	...	...	...
Household soap	153	220	4	...	...	...
Carpets (thousands of square meters)	629	705	615	534	663	690
Processed metal	13	13	10	5	5	7

Sources: National Statistical Office, and Ministry of Finance and Economy.

Table 6. Mongolia: Gross Industrial Output at 1995 prices, 1999–2004

	1999	2000	2001	2002	2003	2004
	(In billions of togrogs)					
Food	29.2	28.7	29.6	30.2	31.9	32.7
Leather and shoes	0.4	0.6	0.7	0.4	0.4	0.2
Textiles	22.6	19.3	28.8	33.6	27.8	30.0
Clothing	2.0	2.3	4.2	10.3	13.9	11.3
Energy 1/	45.2	46.6	43.8	45.3	45.7	48.6
Coal	12.7	12.8	13.5	13.9	14.6	17.8
Mining of metal ores	97.4	102.7	109.4	101.6	96.5	136.9
Other mining and quarrying	14.2	16.5	18.7	15.0	17.7	14.0
Non-metallic products	4.6	4.2	4.8	6.3	7.0	5.1
Wood processing	1.1	1.0	1.0	0.8	1.8	1.1
Chemicals	1.0	1.0	1.6	1.3	1.1	1.3
Printing	1.0	1.6	1.6	2.0	4.7	1.7
Furniture	3.1	3.1	0.5	0.9	0.4	0.5
Other	3.5	3.2	3.6	9.6	13.1	11.4

Sources: National Statistical Office, and Ministry of Finance and Economy.

1/ Includes electric and thermal energy.

Table 7. Mongolia: Coal Mining Sector, 1999–2004

(In thousands of metric tons)

	1999	2000	2001	2002	2003	2004
Production	4,964	5,185	5,337	5,693	5,824	7,092
Imports	30	43	10	0	0	0
Consumption	5,017	5,212	5,327	5,692	5,823	7,092
Intermediate 1/	4,127	4,449	4,537	4,723	4,380	4,479
Final consumption	890	763	790	969	1,443	2,613
Industry and construction	347	180	152	152	154	91
Agriculture	32	3	0	8	8	9
Communal housing and public services	202	407	334	436	465	451
Other	309	173	304	374	817	2,063
Exports	...	...	...	...	435	1,560
Memorandum item:						
Stock, end of year	170	186	206	157	227	343

Sources: National Statistical Office, and Ministry of Finance and Economy.

1/ Consumption by thermal power stations.

Table 8. Mongolia: Petroleum Imports, 1999–2004
(In thousands of metric tons)

	1999	2000	2001	2002	2003	2004
(In thousands of metric tons)						
Total petroleum imports	393.7	429.9	487.5	470.6	512.9	563.9
Petro	193.2	233.7	247.2	243.7	259.1	270.1
Diesel	159.4	161.7	197.1	190.6	214.8	258.2
Jet fuel	15.9	18.4	22.8	20.5	23.9	22.8
Mazut	22.7	14.6	17.5	9.5	12.4	11.1
Lubricants	2.5	1.5	2.9	6.3	2.7	1.7
(In millions of U.S. dollars)						
Memorandum item:						
Value of Petroleum Imports	71.8	109.8	124.0	110.0	142.5	210.2

Sources: National Statistical Office.

Table 9. Mongolia: Electricity Sector, 1999–2004

	1999	2000	2001	2002	2003	2004
(In millions of kilowatt hours)						
Supply	3,045	3,127	3,212	3,279	3,309	3,474
Domestic	2,842	2,946	3,017	3,112	3,138	3,304
Imports	203	181	196	167	171	171
Utilization, total	3,045	3,127	3,212	3,279	3,309	3,474
Industry and construction	959	1,182	1,203	1,260	1,361	1,459
Transport and communications	67	79	87	85	92	99
Agriculture	27	21	17	22	24	26
Commercial housing and public services	444	463	476	487	526	568
Other sectors	370	165	164	178	192	207
Loss in transmission and distribution	509	576	603	583	489	480
Power stations' own use	610	616	644	649	618	629
Exports	59	25	18	16	7	8
(Togrogs per kilowatt hour, annual average)						
Tariff						
Industry	41	41	45	47	47	51
Agriculture	41	41	45	47	47	51
Households	35	35	45	47	47	49
(Percent change)						
Supply and utilization	0.1	2.7	2.7	2.1	0.9	5.0
Domestic	6.2	3.7	2.4	3.2	0.8	5.3
Imports	-44.7	-10.8	8.3	-14.6	2.4	-0.3
Industry and construction	-20.7	23.3	1.8	4.7	8.0	7.2
Transport and communications	6.3	17.9	10.1	-2.6	8.0	7.7
Agriculture	145.5	-22.2	-19.0	29.4	8.2	7.6
Commercial housing and public services	4.2	4.3	2.8	2.3	8.0	7.9
Other sectors	68.9	-55.4	-0.6	8.4	8.0	7.5
Loss in transmission and power stations' own use in total supply (in percent)	36.7	38.1	38.8	37.6	33.5	31.9

Sources: Ministry of Fuel and Energy.

Table 10. Mongolia: Employment by Sector, 1999–2004
(Number of employees, in thousands at end of year)

	1999	2000	2001	2002	2003	2004
Total employment 1/	813.6	809.0	832.3	870.8	926.5	950.5
Agriculture and forestry	402.6	393.5	402.4	391.4	387.5	381.8
Industry	98.8	91.0	93.3	99.2	109.5	114.2
Transport and communications	34.9	34.1	35.1	38.8	39.5	42.2
Construction	27.6	23.4	20.4	25.5	35.1	39.2
Education	43.2	54.4	55.2	59.3	55.3	57.8
Health	34.8	33.5	33.0	34.5	36.8	39.4
Other	171.7	179.1	192.9	222.1	262.8	275.9
Memorandum items:						
Labor force	853.4	847.6	872.6	901.7	959.8	986.1
Unemployed	39.8	38.6	40.3	30.9	33.3	35.6

Sources: National Statistical Office, and Ministry of Finance and Economy.

1/ Excludes foreign employees.

Table 11. Mongolia: Ulaanbaatar Consumer Prices, 1999–2005 1/
(December 2000 = 100)

	1999	2000	2001	2002	2003	2004	2005 Jan.-July
(Period average)							
Overall index	90.4	100.9	109.0	110.1	113.8	123.2	138.7
Flour and flour goods	94.5	99.2	101.9	98.4	98.1	121.5	123.7
Meat and meat products	103.5	135.4	137.5	137.9	159.2	187.2	256.3
Milk and diary products	90.4	93.0	100.2	91.5	92.7	91.8	96.2
Sugar, candy, tea, fruits	91.4	91.1	100.3	100.8	96.2	103.6	106.2
Potato and vegetables	94.5	127.6	113.0	123.7	116.8	104.4	140.4
Other food stuffs	97.9	100.8	102.4	102.2	104.1	110.6	123.7
Alcohol and tobaccos	89.5	97.1	112.4	115.9	112.5	117.3	127.8
Men's clothing	95.6	97.0	103.6	108.4	110.2	112.8	115.7
Women's clothing	97.6	98.0	102.0	100.5	100.5	99.2	99.9
Children's clothing	97.7	99.9	99.5	101.8	117.4	118.3	126.4
Footwear	95.8	97.0	99.8	98.7	106.9	108.8	108.2
Cloth	100.4	99.9	98.4	100.4	118.8	124.6	139.3
Housing, heating, and electricity	74.9	81.3	110.0	119.2	121.6	123.7	132.5
Household goods	94.1	98.6	100.9	101.4	101.1	102.9	106.8
Medical care	92.5	100.0	100.2	102.1	111.7	116.1	120.8
Transport and communication	83.8	97.9	100.5	102.8	105.5	115.8	135.0
Education and recreation	88.9	98.2	99.3	97.9	108.7	117.9	121.5
Other goods and services	93.7	100.1	102.1	103.9	117.8	128.0	133.6
(End of period)							
Overall index	92.5	100.0	108.0	109.7	114.9	127.5	145.1
Flour and flour goods	97.3	100.0	103.0	94.5	110.1	124.9	123.7
Meat and meat products	90.3	100.0	119.5	119.1	146.5	181.9	299.3
Milk and diary products	96.0	100.0	106.4	107.0	102.0	101.4	76.8
Sugar, candy, tea, fruits	92.4	100.0	99.8	95.4	97.2	103.8	111.6
Potato and vegetables	103.3	100.0	106.1	121.0	85.5	107.1	189.4
Other food stuffs	100.1	100.0	104.8	102.7	105.0	116.5	121.5
Alcohol and tobaccos	90.4	100.0	116.3	115.5	112.3	119.7	128.1
Men's clothing	97.3	100.0	111.1	112.3	114.3	121.3	112.8
Women's clothing	102.0	100.0	103.6	106.0	101.9	100.9	99.5
Children's clothing	100.7	100.0	104.4	117.2	132.4	132.7	125.3
Footwear	100.1	100.0	100.9	113.3	112.2	111.3	105.1
Cloth	100.4	100.0	97.4	103.3	122.8	136.2	139.9
Housing, heating, and electricity	75.8	100.0	122.2	126.8	125.3	130.2	132.2
Household goods	97.3	100.0	101.4	103.8	100.8	105.9	107.9
Medical care	100.0	100.0	99.4	108.5	113.9	118.0	123.8
Transport and communication	96.8	100.0	101.0	105.1	107.2	130.7	137.3
Education and recreation	96.3	100.0	98.4	102.7	114.3	122.9	121.5
Other goods and services	96.3	100.0	103.4	107.6	122.6	132.6	134.1
(Percent change)							
Memorandum items:							
Annual average	7.6	11.6	8.0	0.3	5.1	8.3	14.5
End of period	10.0	8.1	8.0	1.6	4.7	11.0	16.0

Source: National Statistical Office.

1/ The number of commodities comprising the consumer basket increased from 205 to 239 from December 2000.

Table 12. Mongolia: Ulaanbaatar Consumer Price Inflation, 1999–2005
(12-month percentage change)

	Weight	1999	2000	2001	2002	2003	2004					2005						
		12	12	12	12	12	8	9	10	11	12	1	2	3	4	5	6	7
Overall index	1.00	10.0	8.1	8.0	1.6	4.7	12.7	12.2	11.3	10.9	10.6	11.0	12.8	12.3	14.4	15.4	17.6	15.8
Food stuffs	0.51	9.1	5.2	9.7	-1.2	7.7	20.2	20.2	17.1	15.0	14.4	14.9	17.0	15.5	18.6	19.7	24.0	21.6
Flour and flour goods	0.13	2.7	2.8	3.0	-8.2	16.4	31.5	26.0	12.9	12.9	13.5	11.2	8.4	7.4	3.6	2.8	1.4	-1.4
Meat and meat products	0.16	13.8	10.8	19.5	-0.3	23.4	29.8	33.0	34.9	30.4	24.1	26.0	28.2	25.9	37.2	39.5	44.4	37.9
Milk and dairy products	0.05	-0.1	4.2	6.4	0.5	-5.0	2.4	4.0	8.3	-1.8	-0.7	0.1	3.2	0.1	-4.3	1.9	4.3	11.3
Sugar, candy, tea, and fruits	0.05	9.3	8.2	-0.2	-4.4	2.3	12.2	12.3	9.5	4.9	6.8	2.0	1.1	0.1	0.8	-0.1	5.8	7.1
Potatoes and vegetables	0.05	47.0	-3.2	6.1	14.0	-28.7	4.2	5.5	8.2	17.5	25.3	25.0	29.7	28.9	29.8	25.1	46.2	49.5
Other food stuffs	0.04	4.6	-0.1	4.8	-2.0	2.2	6.9	7.1	6.8	8.0	11.0	13.7	18.0	18.0	17.4	10.1	10.3	10.0
Alcohol and tobacco	0.04	6.5	10.6	16.3	-0.7	-2.9	-3.3	-3.4	-3.1	-3.2	-3.7	1.3	12.7	12.2	10.5	9.9	9.5	7.2
Clothes and shoes	0.13	5.0	-0.3	4.5	5.8	-0.1	1.4	2.7	0.9	1.0	1.3	2.3	2.5	2.0	2.4	2.6	3.2	2.1
Men's clothing	0.03	-2.5	2.8	11.1	1.1	2.1	2.3	5.1	7.1	5.0	6.1	6.9	6.5	3.7	5.6	4.2	5.3	4.6
Women's clothing	0.04	4.1	-2.0	3.6	2.3	-3.8	-1.6	-0.6	-0.9	-0.7	-1.0	0.6	1.0	0.6	1.1	2.1	2.1	1.8
Children's clothing	0.01	-1.0	-0.7	4.4	12.3	12.9	0.8	1.4	-7.5	1.0	0.2	3.3	5.8	10.9	10.4	11.8	13.6	13.2
Footwear	0.05	10.2	-0.1	0.9	12.3	-0.8	3.9	4.2	-1.3	-0.9	-0.8	-0.4	-0.2	0.1	-0.5	0.0	0.6	-1.8
Cloth	0.00	-4.4	-0.4	-2.6	6.0	19.0	-1.4	0.1	1.3	5.8	10.9	10.8	10.6	14.9	13.6	14.6	15.3	15.7
Housing, heating, and electricity	0.11	5.0	32.0	22.2	3.8	-1.7	3.9	-1.4	2.9	4.3	3.9	3.6	8.8	10.1	12.3	13.2	12.8	13.0
Household goods	0.03	4.7	2.7	1.4	2.4	-2.8	2.8	2.7	4.0	6.7	5.1	6.4	7.4	5.6	3.5	5.4	5.4	5.1
Medical care	0.01	17.8	0.0	-0.6	9.2	4.9	4.9	4.6	3.0	3.0	3.6	3.2	2.9	3.2	6.0	5.8	7.6	7.5
Transport and communication	0.10	27.4	3.3	1.0	4.0	2.1	13.5	17.7	20.9	22.5	21.9	21.8	20.8	21.9	23.7	24.2	25.8	21.9
Education and recreation	0.07	15.4	3.9	-1.6	4.4	11.4	7.7	7.7	6.8	6.8	7.5	6.4	6.4	7.0	6.2	7.0	6.7	4.2
Other goods and services	0.04	6.0	3.9	3.4	4.1	13.6	9.8	9.4	7.7	7.6	8.2	8.0	7.8	8.0	7.6	8.3	3.4	3.0

Source: National Statistical Office.

Table 13. Mongolia: Retail Prices, 1999–2005
(End of period; in togrogs per kilogram, except where stated)

	1999	2000	2001	2002	2003	2004	2005 July
Mutton	720	801	959	950	1,227	1,500	2,553
Beef	774	875	1,088	1,081	1,327	1,733	2,656
Flour	325	355	362	297	409	442	402
Bread	250	250	266	266	288	312	319
Sugar	590	684	677	589	557	580	630
Rice	420	446	476	459	456	685	706
Vegetable oil (liter)	1,550	1,500	1,250	1,240	1,408	1,550	1,600
Tea bricks (2 kilograms)	2,465	2,550	2,397	2,267	1,947	2,400	2,723
Tobacco	1,265	1,500	1,520	1,600	1,650	1,650	1,775
Gasoline A-93 (liter)	410	390	410	435	520	673	790
Gasoline A-76 (liter)	380	350	375	400	470	600	730
Diesel (liter)	396	470	420	420	462	546	865

Sources: National Statistical Office; and Neft Import Concern.

Table 14. Mongolia: Privatization of State-Owned Enterprises, 1999–2004 1/

	No. of Enterprises Privatized	Privatization Revenue (million togrogs)
1999		
Total privatization	365	9,475
Large enterprises	16	7,133
Construction sector	3	477
Mineral sector	2	918
Agriculture sector	4	2,741
Other	7	2,997
Small enterprises and assets	349	2,342
2000		
Total privatization	19	5,487
Large enterprises	9	5,318
Construction sector	3	1,588
Mineral sector	2	1,364
Agriculture sector	1	742
Other	3	1,625
Small enterprises and assets	10	169
2001		
Total privatization	11	4,903
Large enterprises	1	4,446
Construction sector	0	0
Mineral sector	0	0
Agriculture sector	0	0
Other	1	4,446
Small enterprises and assets	10	457
2002		
Total privatization	25	15,912
Large enterprises	10	14,681
Construction sector	3	456
Mineral sector	0	0
Agriculture sector	1	145
Other	3	14,080
Small enterprises and assets	15	1,231
2003		
Total privatization	15	11,174
Large enterprises	7	10,928
Construction sector	2	106
Mineral sector	0	0
Agriculture sector	0	0
Other	5	10,823
Small enterprises and assets	8	245
2004		
Total privatization	20	18,429
Large enterprises	4	17,818
Construction sector	0	0
Mineral sector	0	0
Agriculture sector	0	0
Other	4	17,818
Small enterprises and assets	16	611

Source: State Property Commission.

1/ Excludes privatization receipts of local governments.

Table 15: Mongolia: Government Average Wages, 1999–2004

	1999	2000	2001	2002	2003	2004
Employment (thousands)	134.0	136.4	133.7	135.6	132.2	120.5
Wage bill (billions of togrogs)	63.5	86.1	92.1	105.0	116.9	128.8
Per capita wage (thousands of togrogs)	473.9	631.2	688.6	774.3	884.3	1,068.9
Nominal wage index (2000=100)	75.1	100.0	109.1	122.7	140.1	169.3
Percent change	14.4	33.2	9.1	63.4	40.1	55.2
CPI index (period average, 2000=100)	90.4	100.9	107.2	108.2	113.8	122.8
Percent change	7.6	11.6	6.3	0.9	5.1	7.9
Real wage index (2000=100)	83.0	99.1	101.7	113.4	123.1	137.9
Percent change	6.4	19.4	2.6	11.4	8.6	12.0
Exchange rate (period average, Togrogs/US\$)	1,021.9	1,076.7	1,097.7	1,110.3	1,147.0	1,192.9
Monthly per capita wage (US\$)	38.6	48.9	52.3	58.1	64.2	74.7

Sources: Ministry of Finance and Economy; National Statistical Office; and Fund staff estimates.

Table 16. Mongolia: Summary Operations of the General Government, 1999-2005

	1999	2000	2001	2002	2003	2004	2005
	Actual	Actual	Actual	Actual	Actual	Actual	Budget
(In billions of togrogs)							
Total revenue and grants	251.7	351.4	429.5	477.0	553.9	713.1	738.9
Total expenditure and net lending	364.6	422.6	489.7	550.5	615.8	753.7	806.8
Overall balance (incl. grants)	-112.9	-71.3	-60.2	-73.4	-61.9	-40.6	-67.8
Financing	112.9	71.3	60.2	73.4	61.9	40.6	67.8
Foreign financing	105.8	66.6	72.8	81.8	-115.8	68.1	134.1
Domestic financing	7.0	4.7	-12.6	-8.3	177.7	-27.6	-66.2
(In percent of GDP)							
Total revenue and grants	27.2	34.5	38.5	38.4	37.9	39.4	35.9
Current revenue	26.5	34.0	37.7	37.9	37.3	39.1	35.7
Tax revenue and social security contributions	19.7	25.6	29.4	28.9	28.8	32.3	29.7
Income taxes	4.2	6.2	5.8	5.8	6.7	8.0	6.5
Enterprise income tax	2.9	4.7	3.9	3.7	4.7	5.5	4.2
Personal income tax	1.4	1.5	1.9	2.1	2.0	2.5	2.3
Social security contributions	3.3	3.9	4.8	4.4	4.5	4.5	4.2
Sales tax and VAT	6.5	7.5	9.3	9.6	8.3	9.0	8.4
Excise taxes	2.9	4.0	4.8	4.1	4.0	3.9	4.5
Customs duties and export taxes	1.0	2.2	2.4	2.0	2.2	2.5	2.2
Other taxes	1.8	1.9	2.3	3.0	3.1	4.4	3.9
Nontax revenue	6.8	8.4	8.2	8.9	8.5	6.8	6.0
Capital revenue and grants	0.7	0.5	0.8	0.6	0.6	0.4	0.1
Total expenditure and net lending	39.4	41.5	43.9	44.4	42.1	41.7	39.2
Current expenditure	26.7	30.8	32.9	33.5	29.8	29.9	28.7
Wages and salaries	6.9	8.5	8.3	8.5	8.0	7.7	7.5
Purchase of goods and services	10.9	12.2	14.6	14.6	12.0	12.0	10.1
Subsidies to public enterprises	0.1	0.0	0.5	0.7	0.6	0.6	0.4
Transfers	7.0	8.3	8.0	8.2	7.9	8.2	8.9
Interest payments	1.9	1.8	1.5	1.6	1.2	1.3	1.4
Contingency allocation	...	...	...	...	...	...	0.4
Capital expenditure and net lending	12.7	10.6	11.0	10.9	12.4	11.8	10.5
Capital expenditure	4.0	5.1	5.3	5.5	6.2	5.8	4.8
Domestically-financed	3.1	4.3	4.4	4.2	4.6	4.6	3.6
Foreign-financed	0.9	0.8	0.9	1.3	1.6	1.2	1.2
Net lending	8.7	5.5	5.7	5.4	6.2	6.0	5.7
On-lent foreign project loans (net)	8.3	5.3	5.3	5.4	5.8	5.9	5.9
Domestic lending minus repayments	0.4	0.2	0.5	0.1	0.4	0.2	-0.1
Current balance (excl. privatization receipts)	-0.2	3.2	4.8	4.4	7.6	9.2	7.1
Primary Balance	-10.3	-5.2	-3.9	-4.3	-3.0	-1.0	-1.9
Overall balance (incl. grants)	-12.2	-7.0	-5.4	-5.9	-4.2	-2.2	-3.3
Financing	12.2	7.0	5.4	5.9	4.2	2.2	3.3
Foreign Financing (net)	11.4	6.5	6.5	6.6	-7.9	3.8	6.5
Project loans	9.4	6.2	6.2	6.5	7.3	7.1	7.0
Program loans	1.8	1.3	2.1	1.3	1.9	1.5	1.0
Short term external debt	0.0	0.0	0.0	0.0	4.0	-3.3	0.0
Amortization	1.1	1.0	1.8	1.2	21.1	1.5	1.5
Arrears	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Privatization receipts	1.3	0.7	0.5	1.4	1.5	0.9	0.7
Domestic Bank Financing (net)	0.0	-0.7	-1.7	-2.2	9.5	-3.2	-3.9
Domestic Non-Bank Financing (net)	-0.5	0.4	0.0	0.2	1.2	0.1	0.0
Memoranda items:							
Total public debt (incl. IMF)/GDP	104.7	98.8	89.1	91.7	113.9	99.0	88.3
Foreign debt (incl. IMF)/GDP	95.9	90.1	84.3	88.7	99.1	90.9	84.8
Domestic debt/GDP	8.7	8.7	4.8	3.0	14.9	8.1	3.5
NPV of total public debt	74.8	67.0	62.8	62.7	80.2	60.2	55.6
Nominal GDP	925.3	1,018.9	1,115.6	1,240.8	1,461.2	1,808.0	2,059.8

Sources: Ministry of Finance; and Fund staff estimates and projections.

Table 17. Mongolia: General Government Revenue, 1999–2004

	1999	2000	2001	2002	2003	2004
	(In billions of togrogs)					
Total revenue and grants	251.7	351.4	429.5	477.0	553.9	713.1
Current revenue	244.8	346.5	420.1	469.7	545.2	706.3
Tax revenue and social security contributions	182.0	260.9	328.2	359.2	421.0	583.1
Income taxes	39.0	62.8	64.5	72.4	97.6	144.1
Enterprise income tax	26.5	48.0	43.8	46.3	68.8	98.6
of which Erdenet	0.0	15.5	11.3	9.5	29.8	52.9
Personal income tax	12.6	14.8	20.7	26.2	28.8	45.5
Social security contributions	30.6	39.3	54.0	54.4	65.2	82.1
Sales tax and VAT	60.4	76.2	104.2	118.7	121.9	163.1
Domestic VAT (Sales tax prior to 1998)	28.9	30.2	43.8	40.7	47.9	57.4
VAT on imports (Sales tax prior to 1998)	31.4	46.0	60.4	78.0	94.3	136.9
Excise taxes	26.7	41.0	53.3	51.3	58.6	70.3
Excise on alcohol	11.2	15.5	23.2	20.6	19.8	23.3
Excise on vodka and tobacco	3.5	4.5	3.1	3.5	3.7	4.2
Excise on imported beer	0.2	0.4	3.1	2.9	3.3	3.3
Excise on vehicles	3.1	7.2	7.3	6.0	10.5	14.7
Excise on petroleum	8.8	13.4	16.6	18.3	21.3	24.8
Customs duties and export taxes	9.0	22.3	27.0	24.6	32.6	44.7
Customs duties	5.9	17.2	26.0	23.8	31.1	40.8
Export taxes	3.2	5.2	1.0	0.8	1.6	3.9
Other taxes	16.3	19.2	25.2	37.7	45.1	78.8
Petrol and diesel tax	4.3	4.2	5.5	4.9	5.7	6.1
Vehicle license fee	2.5	2.9	3.4	3.7	4.0	4.8
Tax on private property	0.3	0.3	1.7	3.4	4.6	5.7
Other	9.2	11.9	14.6	25.8	30.8	62.1
Nontax revenue	62.7	85.7	91.9	110.6	124.3	123.2
Interest and fines	3.5	8.1	9.1	9.1	17.6	20.5
Own budget revenues	29.0	35.2	47.2	48.0	65.0	65.2
Dividends	5.7	17.2	11.6	6.4	1.3	4.1
of which Erdenet	1.1	11.0	1.6	2.5	0.1	1.9
Other nontax revenue	24.5	25.1	24.2	47.2	40.4	33.4
Capital revenue and grants	6.9	4.9	9.3	7.3	8.7	6.8
Capital revenue	0.0	0.1	0.2	0.5	0.0	0.8
Grants 1/	6.9	4.8	9.2	6.8	8.7	6.1
	(In percent of total revenue)					
Current revenue	97.2	98.6	97.8	98.5	98.4	99.0
Tax revenue and social security contributions	72.3	74.2	76.4	75.3	76.0	81.8
Enterprise income tax	10.5	13.7	10.2	9.7	12.4	13.8
Personal income tax	5.0	4.2	4.8	5.5	5.2	6.4
Social security contributions	12.1	11.2	12.6	11.4	11.8	11.5
Taxes on goods and services	34.6	33.4	36.7	35.6	32.6	32.7
Customs duties and import surcharges	3.6	6.3	6.3	5.2	5.9	6.3
Other taxes	6.5	5.5	5.9	7.9	8.1	11.1
Nontax revenue	24.9	24.4	21.4	23.2	22.4	17.3
Capital revenue	0.0	0.0	0.0	0.1	0.0	0.1
Grants	2.7	1.4	2.1	1.4	1.6	0.8
	(In percent of GDP)					
Total revenue	27.2	34.5	38.5	38.4	37.9	39.4
Current revenue	26.5	34.0	37.7	37.9	37.3	39.1
Tax revenue and social security contributions	19.7	25.6	29.4	28.9	28.8	32.3
Enterprise income tax	2.9	4.7	3.9	3.7	4.7	5.5
Personal income tax	1.4	1.5	1.9	2.1	2.0	2.5
Social security contributions	3.3	3.9	4.8	4.4	4.5	4.5
Taxes on goods and services	9.4	11.5	14.1	13.7	12.3	12.9
Customs duties and import surcharges	1.0	2.2	2.4	2.0	2.2	2.5
Other taxes	1.8	1.9	2.3	3.0	3.1	4.4
Nontax revenue	6.8	8.4	8.2	8.9	8.5	6.8
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.7	0.5	0.8	0.6	0.6	0.3

Sources: Ministry of Finance and Economy; and Fund staff estimates.

1/ Grants relate to receipt of the budget of counterpart funds from recipient of the grants. This differs from the balance of payments definition which records grants when they are received from abroad.

Table 18. Mongolia: General Government Expenditure, 1999–2004

	1999	2000	2001	2002	2003	2004
(In billions of togrogs)						
Total expenditure and net lending	364.6	422.6	489.7	550.5	615.8	753.7
Current expenditure	246.9	314.2	366.7	415.3	434.8	539.9
Wages and salaries	63.5	86.1	92.1	105.0	116.9	138.7
Goods and services	100.7	124.7	162.6	180.8	174.9	217.5
Subsidies and current transfers	65.3	85.2	95.5	109.9	125.4	160.5
Subsidies 1/	0.6	0.5	6.1	8.8	9.4	11.4
Transfers	64.7	84.7	89.4	101.1	116.0	149.1
Social Security Fund	42.3	58.4	64.3	73.3	87.5	116.2
Social Assistance Fund	11.8	11.6	13.7	17.4	19.8	23.0
Other transfers	10.6	14.7	11.4	10.5	8.7	9.8
Interest payment	17.3	18.2	16.5	19.6	17.6	23.2
Capital expenditure and net lending	117.7	108.4	123.0	135.2	180.9	213.8
Domestically financed capital expenditure	28.9	43.8	49.0	52.3	67.2	82.7
Domestic lending minus repayment	3.6	1.8	5.3	0.7	6.1	2.8
Foreign financed projects	85.2	62.9	68.8	82.2	107.6	128.3
(In percent of total expenditure)						
Current expenditure	67.7	74.4	74.9	75.4	70.6	71.6
Wages and salaries	17.4	20.4	18.8	19.1	19.0	18.4
Goods and services	27.6	29.5	33.2	32.8	28.4	28.9
Subsidies and transfers	17.9	20.2	19.5	20.0	20.4	21.3
Subsidies	0.2	0.1	1.2	1.6	1.5	1.5
Transfers and other	17.7	20.1	18.3	18.4	18.8	19.8
Social Security Fund	11.6	13.8	13.1	13.3	14.2	15.4
Other	6.1	6.2	5.1	5.1	4.6	4.4
Interest payments	4.7	4.3	3.4	3.6	2.9	3.1
Capital expenditure and net lending	32.3	25.6	25.1	24.6	29.4	28.4
Domestically financed capital expenditure	7.9	10.4	10.0	9.5	10.9	11.0
Domestic lending minus repayment	1.0	0.4	1.1	0.1	1.0	0.4
Foreign financed projects	23.4	14.9	14.0	14.9	17.5	17.0
Total expenditure and net lending	39.4	41.5	43.9	44.4	42.1	41.7
Current expenditure	26.7	30.8	32.9	33.5	29.8	29.9
Wages and salaries	6.9	8.5	8.3	8.5	8.0	7.7
Goods and services	10.9	12.2	14.6	14.6	12.0	12.0
Subsidies and current transfers	7.1	8.4	8.6	8.9	8.6	8.9
Subsidies	0.1	0.0	0.5	0.7	0.6	0.6
Transfers	7.0	8.3	8.0	8.2	7.9	8.2
Social Security Fund	4.6	5.7	5.8	5.9	6.0	6.4
Social Assistance Fund	1.3	1.1	1.2	1.4	1.4	1.3
Other transfers	1.1	1.4	1.0	0.8	0.6	0.5
Interest payment	1.9	1.8	1.5	1.6	1.2	1.3
Capital expenditure and net lending	12.7	10.6	11.0	10.9	12.4	11.8
Domestically financed capital expenditure	3.1	4.3	4.4	4.2	4.6	4.6
Domestic lending minus repayment	0.4	0.2	0.5	0.1	0.4	0.2
Foreign financed projects	9.2	6.2	6.2	6.6	7.4	7.1

Sources: Ministry of Finance and Economy; and Fund staff estimates.

1/ Beginning in 2001, this item includes subsidies to state-owned enterprises for quasi-fiscal activities which, previously, had been recorded under purchases of goods and services.

Table 19. Mongolia: General Government Expenditure by Function, 1999–2004

	1999	2000	2001	2002	2003	2004
(In billions of togrogs)						
Total expenditure	364.6	422.6	489.7	550.5	615.8	753.7
General public services	33.0	42.2	50.4	54.0	53.7	63.7
Defense	18.4	26.1	25.4	28.1	27.9	32.9
Public order and safety	17.0	23.9	28.7	30.5	33.4	44.2
Education	64.8	82.1	98.7	103.7	115.4	141.0
Health	35.7	46.0	54.3	58.0	58.1	73.2
Social security and welfare	59.9	76.0	84.5	96.9	117.6	150.6
Housing and community services	4.7	7.0	7.1	7.6	6.3	9.6
Recreation and culture	11.5	14.3	15.1	17.5	18.2	21.5
Economic affairs	22.4	33.0	45.1	58.9	73.5	84.9
Other 1/	97.1	72.1	80.4	95.3	111.7	132.0
(In percent of total expenditure)						
General public services	9.0	10.0	10.3	9.8	8.7	8.4
Defense	5.1	6.2	5.2	5.1	4.5	4.4
Public order and safety	4.7	5.6	5.9	5.5	5.4	5.9
Education	17.8	19.4	20.2	18.8	18.7	18.7
Health	9.8	10.9	11.1	10.5	9.4	9.7
Social security and welfare	16.4	18.0	17.3	17.6	19.1	20.0
Housing and community services	1.3	1.7	1.4	1.4	1.0	1.3
Recreation and culture	3.1	3.4	3.1	3.2	3.0	2.8
Economic affairs	6.1	7.8	9.2	10.7	11.9	11.3
Other 1/	26.6	17.1	16.4	17.3	18.1	17.5
(In percent of GDP)						
Total expenditure	39.4	41.5	43.9	44.4	42.1	41.7
General public services	3.6	4.1	4.5	4.4	3.7	3.5
Defense	2.0	2.6	2.3	2.3	1.9	1.8
Public order and safety	1.8	2.3	2.6	2.5	2.3	2.4
Education	7.0	8.1	8.8	8.4	7.9	7.8
Health	3.9	4.5	4.9	4.7	4.0	4.1
Social security and welfare	6.5	7.5	7.6	7.8	8.0	8.3
Housing and community services	0.5	0.7	0.6	0.6	0.4	0.5
Recreation and culture	1.2	1.4	1.3	1.4	1.2	1.2
Economic affairs	2.4	3.2	4.0	4.8	5.0	4.7
Other 1/	10.5	7.1	7.2	7.7	7.6	7.3

Sources: Ministry of Finance and Economy; and Fund staff estimates.

1/ Includes capital expenditure and net lending (foreign-financed projects).

Table 20. Mongolia: General Government Social Expenditure, 1999–2004

	1999	2000	2001	2002	2003	2004
(In billions of togrogs)						
Total expenditure	364.6	422.6	489.7	550.5	615.8	753.7
Social expenditure	176.6	225.4	259.7	283.7	315.6	396.0
Social security and social assistance	59.9	76.0	84.5	96.9	117.6	150.6
Education	64.8	82.1	98.7	103.7	115.4	141.0
Health	35.7	46.0	54.3	58.0	58.1	73.2
Housing and community services	4.7	7.0	7.1	7.6	6.3	9.6
Recreational, cultural affairs and services	11.5	14.3	15.1	17.5	18.2	21.5
(In percent of total expenditure)						
Social expenditure	48.4	53.3	53.0	51.5	51.3	52.5
Social security and social assistance	16.4	18.0	17.3	17.6	19.1	20.0
Education	17.8	19.4	20.2	18.8	18.7	18.7
Health	9.8	10.9	11.1	10.5	9.4	9.7
Housing and community	1.3	1.7	1.4	1.4	1.0	1.3
Recreational, cultural affairs and services	3.1	3.4	3.1	3.2	3.0	2.8

Sources: Ministry of Finance and Economy; and Fund staff estimates.

Table 21. Mongolia: Subsidies and Transfers, 1999–2004

	1999	2000	2001	2002	2003	2004
(In billions of togrogs)						
Total subsidies and transfers	65.3	85.2	95.5	109.9	125.4	160.5
Total subsidies	0.6	0.5	6.1	8.8	9.4	11.4
Energy	0.1	0.0	5.4	8.6	7.9	8.1
Urban transport	0.6	0.5	0.5	0.0	1.5	3.2
Other	0.0	0.0	0.1	0.1	0.0	0.0
Total transfers	64.7	84.7	89.4	101.1	116.0	149.1
Social Security Fund	42.3	58.4	64.3	73.3	87.5	116.2
Social Assistance Fund	11.8	11.6	13.7	17.4	19.8	23.0
Other	10.6	14.7	11.4	10.5	8.7	9.8
(In percent of GDP)						
Total subsidies and transfers	7.1	8.4	8.6	8.9	8.6	8.9
Total subsidies	0.1	0.0	0.5	0.7	0.6	0.6
Total transfers	7.0	8.3	8.0	8.2	7.9	8.2

Sources: Ministry of Finance and Economy; and Fund staff estimates.

Table 22. Mongolia: Social Security and Social Assistance Funds, 1999–2004

	1999	2000	2001	2002	2003	2004
(In billions of togrogs)						
Social Security Fund						
Total revenue	47.6	65.6	73.9	83.6	94.6	115.3
Budget transfers	13.5	14.8	21.0	24.4	24.4	42.0
Social security contributions 1/	33.2	59.2	67.0	76.5	84.9	107.2
Civil servants	9.8	19.2	21.4	23.4	25.5	28.2
Business entities	14.4	19.7	28.1	27.8	36.0	43.5
Employees	9.0	18.7	23.8	25.4	24.4	35.5
Other	1.0	0.9	2.0	2.2	4.8	3.1
Total expenditure	43.7	58.4	64.3	73.3	87.5	116.2
Old age pension	28.2	38.4	41.9	47.0	55.3	73.6
Handicapped persons	3.8	5.5	6.2	7.5	9.5	14.3
Survivors' benefits	4.7	6.3	6.7	7.8	9.0	12.1
Disability benefits	0.6	0.8	0.9	1.1	1.3	1.5
Death benefits	0.7	0.8	1.2	1.6	1.8	1.9
Allowance for accidents	1.2	1.9	2.2	2.4	3.0	4.0
Serviceman's pension	2.1	3.6	3.8	4.2	5.3	6.6
Unemployment benefits	0.6	0.5	0.5	0.6	1.1	1.0
Administration	1.3	0.0	0.0	0.0	0.0	0.0
Capital investment	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.7	0.9	1.0	1.2	1.3
Overall balance	4.0	2.9	8.0	9.2	8.8	12.0
Social Assistance Fund						
Total expenditure	11.8	11.6	13.7	17.3	19.8	23.2
Pregnancy	1.8	2.3	3.6	4.3	4.2	4.3
Mothers with large families	1.6	0.7	0.5	0.7	0.8	0.8
Child care	0.1	0.1	0.1	0.1	0.1	0.2
Twins	0.0	0.0	0.0	0.0	0.0	0.0
Infant nursing	2.8	2.9	3.3	4.3	4.8	5.7
Social pension	2.7	3.6	3.8	4.4	5.7	7.1
War veterans	1.0	1.0	1.6	2.2	2.4	3.0
Other	1.8	1.1	0.8	1.4	1.7	2.1
(In percent of total government expenditure)						
Memorandum items:						
Social Security Fund expenditure	12.0	13.7	13.4	13.3	14.2	15.4
Budget transfers to the Social Security Fund	3.7	3.2	4.3	4.4	4.0	5.6
Social Assistance Fund expenditure	3.2	2.7	2.8	3.2	3.2	3.1
(In percent of GDP)						
Social Security Fund expenditure	4.7	5.5	5.8	5.9	6.0	6.4
Budget transfers to the Social Security Fund	1.5	1.3	1.9	2.0	1.7	2.3
Social Assistance Fund expenditure	1.3	1.1	1.2	1.4	1.4	1.3

Sources: Ministry of Finance and Economy; and Fund staff estimates.

1/ A part of social security contributions constitutes intergovernmental transfers.

Table 23. Mongolia: Number of Social Security Beneficiaries, 1999–2004

(In thousands)

	1999	2000	2001	2002	2003	2004
Social security	298.9	310.5	316.5	344.1	364.0	365.5
Old age	167.5	171.6	173.2	173.0	175.9	176.3
Handicapped persons	29.4	32.7	35.2	42.7	41.6	52.7
Survivors' benefits	33.7	34.9	35.6	36.7	37.7	37.8
Disability benefits	58.1	61.4	62.9	54.8	64.3	58.1
Other benefits	10.2	9.9	9.6	37.0	44.6	40.5
Social assistance	249.1	223.9	242.2	285.1	354.1	378.7
Pregnancy	43.8	45.9	50.5	49.3	51.5	54.5
Mothers with large families	61.6	28.7	53.8	17.5	35.7	33.5
Child care	37.6	31.5	20.6	4.6	5.9	7.5
Twins	0.3	0.4	0.3	0.3	0.3	0.3
Infant nursing	4.7	3.5	3.3	57.1	58.4	59.1
War veterans	41.5	47.9	56.2	86.5	107.1	125.2
Social pension	25.4	30.6	33.8	37.3	39.7	43.6
Disabled Nursing homes for elderly	3.6	9.3	10.1	15.5	19.3	27.9
Other	30.6	26.1	13.6	16.8	36.2	27.1

Source: Ministry of Finance and Economy.

Table 24. Mongolia: Government Employment and Wage Bill, 1999–2004

	1999	2000	2001	2002	2003	2004
	(Number of positions)					
Government employment						
General public services	15,114	15,718	15,543	16,114	14,744	13,807
Public order and safety	14,384	15,023	12,658	12,186	14,506	9,569
Education	46,498	46,359	48,866	50,928	47,927	48,444
Health	27,046	26,529	25,344	25,770	24,643	23,023
Social security and welfare	1,639	489	621	686	643	608
Recreation and culture	5,858	6,419	6,210	5,923	5,721	5,174
Agriculture and forestry	1,335	1,222	1,392	1,404	1,207	1,037
Other services	22,137	22,511	22,615	22,582	22,774	18,833
Total	134,011	134,268	133,248	135,591	132,164	120,493
	(In billions of togrogs)					
Wages and salaries						
General public services	9.4	12.3	13.0	14.9	16.2	18.5
Public order and safety	7.5	10.9	12.1	13.5	14.9	17.9
Education	24.1	32.5	36.1	41.4	46.4	45.4
Health	10.5	13.7	15.0	16.2	17.8	22.9
Social security and welfare	0.7	0.3	0.3	0.4	0.4	0.5
Recreation and culture	2.5	3.2	3.4	4.1	4.3	4.9
Agriculture and forestry	0.6	0.4	0.5	0.9	0.8	0.8
Other services	8.2	12.7	11.5	13.6	16.1	18.0
Total	63.5	86.1	92.1	105.0	116.9	128.8

Source: Ministry of Finance and Economy.

Table 25. Mongolia: Expenditure of the Health Sector, 1999–2004

(In billions of togrogs)

	1999	2000	2001	2002	2003	2004
Total expenditure	35.7	46.0	54.3	58.0	58.1	73.2
Wages and salaries	10.5	13.9	15.0	16.2	17.8	22.9
Social security	2.6	4.1	4.3	4.4	4.8	6.0
Social security payments	2.1	3.4	3.5	3.6	4.0	5.0
Health insurance	0.5	0.7	0.8	0.8	0.8	1.0
Other goods and services	21.5	25.8	33.0	34.5	32.2	40.8
Electricity	1.2	1.5	1.6	1.6	1.7	1.8
Fuel and heating	4.3	4.6	5.6	5.3	5.3	5.8
Transport (fuel)	1.3	1.8	2.0	2.0	2.0	2.6
Food	2.0	2.2	2.7	2.7	2.9	3.4
Medicines	6.0	7.3	9.5	9.1	10.0	12.0
Other	6.7	8.5	11.7	13.8	10.3	15.2
Investment	0.7	1.5	1.3	2.0	2.3	2.4
Capital repair expenditures	0.4	0.6	0.7	0.9	1.1	1.1

Source: Ministry of Finance and Economy.

Table 26. Mongolia: Expenditure of the Education Sector, 1999–2004

(In billions of togrogs)

	1999	2000	2001	2002	2003	2004
Total expenditure	64.8	82.1	98.7	103.7	115.4	141.0
Wages and salaries	24.1	32.2	36.1	41.4	46.4	45.4
Social security	5.1	9.7	9.8	10.5	11.8	11.8
Social security payments	4.2	8.1	8.2	8.7	9.7	9.8
Health insurance	0.9	1.6	1.7	1.8	2.1	2.1
Other goods and services	31.9	36.7	45.8	43.9	47.8	72.0
Electricity	2.0	2.3	2.8	2.6	2.9	3.0
Fuel and heating	10.9	12.5	15.4	14.2	15.5	17.1
Transport (fuel)	0.5	0.6	0.7	0.7	0.7	0.9
Food	3.3	4.1	5.4	5.9	7.7	9.5
Medicines	0.0	0.0	0.0	0.0	0.0	0.0
Other	15.2	17.2	21.6	20.4	21.0	41.4
Investment	2.5	2.4	3.1	3.1	4.9	4.5
Capital repair expenditures	1.2	0.6	0.8	1.8	1.2	1.6
Lending minus repayment	0.0	0.6	3.1	3.1	3.2	5.7

Source: Ministry of Finance and Economy.

Table 27. Mongolia: Monetary Survey, 2000-05

	2000	2001	2002	2003			2004			2005			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
	(In billions of togrogs)												
Broad money	259	331	470	504	558	609	704	740	812	827	846	892	1,009
Currency	101	109	121	115	141	148	131	140	170	163	144	133	177
Deposits	158	222	349	389	417	461	572	600	642	664	703	760	832
Demand deposits	30	47	67	65	68	66	81	71	85	79	78	81	101
Tugrik time deposits	59	88	147	176	193	211	240	273	284	287	301	347	371
Forex deposits	69	87	135	148	156	184	250	257	273	298	324	332	360
Net foreign assets	202	220	308	307	322	382	232	242	242	266	283	330	376
Net international reserves	206	227	322	320	336	399	278	288	294	318	294	342	388
Bank of Mongolia	154	176	254	243	268	301	151	176	183	185	198	222	252
Commercial banks	52	51	68	77	68	98	128	112	110	133	96	120	136
Other NFA	-4	-7	-13	-13	-14	-17	-47	-46	-52	-52	-11	-12	-12
Bank of Mongolia	0	0	0	0	0	0	0	0	0	3	1	1	1
Commercial banks	-5	-7	-13	-13	-14	-18	-47	-46	-52	-56	-13	-13	-13
Net domestic assets	57	111	162	197	236	228	472	498	570	561	564	562	633
Domestic credit	120	170	243	290	329	331	601	640	681	708	740	747	804
Net credit to government	51	31	7	4	-4	-28	152	131	114	98	94	65	48
Credit	95	84	71	82	83	86	266	225	215	199	190	180	162
Minus: Deposits	44	53	63	78	86	115	114	94	101	100	96	115	114
Claims on nonbanks	69	139	236	286	333	360	449	509	567	610	646	682	756
Claims on public enterprises	6	10	12	11	13	16	16	15	14	13	13	14	22
Claims on the private sector	45	115	204	239	283	305	390	442	495	511	552	581	646
Nonperforming loans	16	11	17	30	33	33	37	42	49	76	71	76	76
Accrued interest receivable on loan	1	2	4	5	4	6	7	9	9	10	11	11	12
Other items, net	-63	-59	-82	-93	-93	-104	-129	-142	-111	-147	-176	-185	-171
Memorandum items:													
	(In percent)												
<u>12-month percentage change</u>													
Broad money 1/	17.5	28.0	41.9	45.8	39.1	39.4	49.7	46.8	45.5	35.7	20.3	20.6	24.3
Net foreign assets	55.4	12.1	37.0	26.7	12.3	26.3	-27.7	-31.5	-36.0	28.6	23.3	26.8	45.7
Domestic credit	-17.5	7.6	10.1	21.2	38.7	20.5	88.8	92.0	76.9	11.8	9.2	6.1	7.7
Claims on public enterprises	-26.7	65.8	17.1	6.7	-0.7	16.2	32.8	38.4	13.5	-17.2	-22.5	-12.8	55.9
Claims on the private sector	44.8	152.4	77.4	87.5	73.1	81.0	91.3	84.6	75.1	67.5	41.6	31.7	30.4
<u>Key ratios:</u>													
Currency/total deposits	63.9	49.1	34.6	29.5	33.8	32.2	23.0	23.3	26.5	24.5	20.4	17.5	21.2
Demand deposits/total deposits	18.9	21.1	19.2	16.7	16.3	14.3	14.2	11.8	13.2	11.9	11.1	10.6	12.1
Tugrik time deposit/total deposits	37.4	39.6	42.1	45.2	46.4	45.8	42.0	45.4	44.3	43.2	42.8	45.7	44.6
Forex time deposits/total deposits	43.7	39.3	38.7	38.0	37.3	39.9	43.7	42.7	42.5	44.9	46.1	43.6	43.3
Currency/broad money	39.0	32.9	25.7	22.8	25.3	24.3	18.7	18.9	21.0	19.7	17.0	14.9	17.5
Demand deposits/broad money	11.5	14.2	14.2	12.9	12.2	10.8	11.6	9.6	10.4	9.6	9.2	9.0	10.0
Time deposits/broad money	49.5	52.9	60.1	64.3	62.5	64.8	69.7	71.5	68.6	70.7	73.9	76.1	72.5
Ratio (percent): Forex deposits/BM	26.7	26.4	28.8	29.4	27.9	30.2	35.6	34.7	33.6	36.0	38.3	37.2	35.7

Sources: Bank of Mongolia; and Fund staff estimates.

Table 28. Mongolia: Balance Sheet of the Bank of Mongolia, 2000-05

	2000	2001	2002	2003				2004			2005		
	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
	(In billions of togrogs)												
Reserve money	133	144	175	181	195	222	201	229	245	255	235	253	296
Currency outside Banks	101	109	121	115	141	148	131	140	170	163	144	133	177
DMB reserves	32	35	55	66	54	73	69	89	75	92	91	120	119
Cash in vaults	6	10	14	16	19	18	21	21	20	20	25	27	27
Demand deposits of DMBs	26	25	41	50	35	55	48	68	55	72	66	93	92
Deposits of business units	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Foreign Assets	155	177	254	243	268	301	151	176	183	189	199	224	253
Net international reserves	154	176	254	243	268	301	151	176	183	185	198	222	252
Assets	209	228	302	289	312	357	238	231	236	237	251	272	300
Minus: Liabilities	55	52	48	46	44	56	87	55	53	52	54	49	47
Other assets, net	0	0	0	0	0	0	0	0	0	3	1	1	1
Assets	0	0	0	0	0	0	0	0	0	3	1	1	1
Minus: Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Domestic Assets	-22	-32	-79	-62	-73	-80	50	53	62	67	36	30	42
Net Credit to Government	34	35	6	-3	-16	-33	128	101	100	98	106	84	87
Credit	53	52	40	39	44	59	219	174	172	171	159	153	151
Government bonds	53	52	40	39	44	59	59	57	55	54	53	49	47
Treasury IMF account	34	38	40	39	40	52	55	53	52	52	53	49	47
Reconstruction bonds	20	14	0	0	5	7	4	4	2	2	0	0	0
Treasury bills	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	160	117	117	117	105	104	104
Minus: Deposits	19	17	34	42	60	93	92	73	72	73	53	69	63
Domestic currency	13	13	30	29	52	68	73	66	63	69	43	28	36
Foreign currency	6	4	4	13	9	24	19	7	9	4	10	40	27
Claims on deposit money banks	5	7	8	8	10	11	13	19	16	22	22	22	19
Claims on nonbanks	1	1	1	1	1	1	1	0	0	0	0	0	0
Minus: Central bank bills (net)	21	50	61	43	49	39	76	60	73	46	69	70	82
Other items, net	-40	-26	-33	-25	-19	-19	-15	-8	19	-6	-23	-7	18
<i>Of which: precious metals</i>	8	13	7	5	17	23	8	10	31	15	6	12	34
Memorandum items:													
Reserve money growth (12 month percent change)	19.4	8.4	21.7	26.7	11.0	16.8	14.7	26.5	25.6	15.2	16.8	10.5	20.4
Broad money/reserve money (ratio)	1.95	2.30	2.68	2.79	2.86	2.75	3.50	3.23	3.31	3.24	3.60	3.53	3.41

Sources: Bank of Mongolia; and Fund staff estimates.

Table 29. Mongolia: Consolidated Balance Sheet of Commercial Banks, 2000-05

	2000	2001	2002	2003				2004				2005	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
	(In billions of togrogs)												
ASSETS	158	226	354	394	423	469	585	617	658	681	727	781	852
Net foreign assets	47	44	54	65	54	81	81	65	58	78	84	107	123
Net international reserves	52	51	68	77	68	98	128	112	110	133	96	120	136
Assets	53	52	71	82	72	103	132	122	116	140	138	160	170
Minus: Liabilities	1	2	3	5	4	5	5	10	6	7	41	40	34
Other foreign assets, net	-5	-7	-13	-13	-14	-18	-47	-46	-52	-56	-13	-13	-13
Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Minus: Liabilities	5	7	13	13	14	18	47	46	52	56	13	13	13
Net domestic assets	110	182	299	330	369	388	504	551	600	604	643	675	729
Reserves	31	35	55	66	52	76	69	82	70	83	88	116	116
Cash	6	10	14	16	19	18	21	21	20	20	25	27	27
Deposits with BOM	25	25	41	50	33	57	48	60	50	63	64	89	89
Central bank bills	21	50	61	43	48	39	76	60	72	45	69	70	81
Domestic credit	85	134	236	292	344	364	473	539	581	610	634	663	717
Net credit to government	17	-3	1	7	12	5	24	30	14	1	-12	-19	-39
Claims on Government	42	32	31	43	38	27	47	51	43	28	31	27	12
Less: Government deposits	25	36	30	36	26	22	23	21	29	27	43	46	51
Loans to nonbanks	68	138	235	285	332	359	449	509	567	610	646	682	756
Public enterprises	5	10	11	10	12	15	16	15	14	13	13	14	22
Private sector	45	115	204	239	283	305	390	442	495	511	552	581	646
Nonperforming loans	16	11	17	30	33	33	37	42	49	76	71	76	76
Accrued interest receivable on loan	1	2	4	5	4	6	7	9	9	10	11	11	12
Other assets, net	-27	-36	-52	-71	-76	-90	-114	-129	-124	-135	-149	-174	-185
LIABILITIES	158	226	354	394	423	469	585	617	658	681	727	781	852
Deposits	158	222	349	389	417	461	572	600	642	664	703	760	832
Demand deposits	30	47	67	65	68	66	81	71	85	79	78	81	101
Time and savings deposits	59	88	147	176	193	211	240	273	284	287	301	347	371
Foreign currency deposits	69	87	135	148	156	184	250	257	273	298	324	332	360
Deposits of NBFIs	0	0	0	0	0	0	0	1	1	1	1	0	0
Borrowing from BoM	0	4	4	5	6	8	13	16	16	17	24	22	19
Memorandum items:													
	(In millions of U.S. dollars)												
Net foreign assets	43.3	39.5	48.2	56.6	47.3	69.5	69.2	55.6	49.7	64.5	69.4	89.6	103.0
Foreign currency deposits	63.0	79.2	120.2	129.8	136.6	158.7	214.2	218.0	232.6	248.0	268.2	278.2	302.1

Sources: Bank of Mongolia; and Fund staff estimates.

Table 30. Mongolia: Net Credit to Government, 2000-05

	2000	2001	2002	2003				2004				2005	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
(In billions of togrogs)													
Net claims on government	51.3	31.5	7.4	3.6	-3.7	-28.2	151.9	131.2	114.1	98.2	94.0	65.1	48.2
Claims	95.2	84.3	70.5	81.8	82.6	86.5	266.4	225.4	215.0	198.7	190.0	179.8	162.1
Minus: Deposits	43.9	52.9	63.2	78.2	86.3	114.6	114.4	94.2	100.9	100.5	96.0	114.7	113.9
Bank of Mongolia (net)	34.1	35.0	6.3	-3.0	-15.7	-33.3	127.8	101.3	99.9	97.6	105.8	84.4	87.5
Claims on Government	53.4	51.9	39.8	39.0	44.5	59.4	219.5	174.2	171.9	170.8	158.8	153.0	150.6
Loans to the MoF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	103.6	103.7
FX financing without tugrik funds	0.0	0.0	0.0	0.0	0.0	0.0	160.2	117.0	117.0	117.0	105.3	0.0	0.0
Government bonds	19.6	13.6	0.0	0.0	4.6	7.0	4.4	4.3	2.4	2.1	0.1	0.2	0.1
Reconstruction bonds	19.6	13.6	0.0	0.0	4.6	7.0	4.4	4.3	2.4	2.1	0.1	0.2	0.1
Treasury IMF account	33.8	38.3	39.8	39.0	39.9	52.4	54.8	53.0	52.5	51.7	53.4	49.2	46.8
Less: Deposits	19.3	16.9	33.5	42.0	60.2	92.7	91.7	72.9	72.0	73.2	53.0	68.6	63.1
Budget deposits	13.4	7.7	19.0	41.3	59.2	92.6	91.7	72.9	71.9	73.0	52.3	68.4	62.2
In domestic currency	7.0	3.9	15.2	28.4	50.6	68.2	73.0	65.8	63.0	69.1	42.0	28.0	34.8
In foreign currency	6.4	3.9	3.7	12.9	8.6	24.4	18.7	7.1	8.9	3.9	10.2	40.5	27.4
Budget reserves	4.3	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.8	0.1	0.9
Commercial banks (net)	17.2	-3.5	1.1	6.6	12.0	5.1	24.2	29.8	14.1	0.6	-11.8	-19.3	-39.3
Claims on Government	41.8	32.5	30.7	42.8	38.1	27.0	46.9	51.1	43.1	27.8	31.2	26.8	11.5
Advance financing of MoF	0.0	1.8	0.1	0.7	1.0	0.9	0.0	0.4	1.5	2.0	0.2	0.8	1.6
Government securities	41.8	30.6	30.6	41.7	36.8	25.9	46.8	50.7	41.1	25.3	31.0	25.7	9.8
Inherited and directed credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accrued interest receivable	0.0	0.0	0.1	0.4	0.4	0.2	0.1	0.0	0.5	0.5	0.0	0.3	0.2
Less: Government deposits	24.6	35.9	29.7	36.2	26.1	21.9	22.7	21.3	29.0	27.2	43.0	46.1	50.8

Sources: Bank of Mongolia; and Fund staff estimates.

Table 31. Mongolia: Interest Rates, 2000-05
(In percent per annum)

	2000	2001	2002	2003				2004				2005	
	Dec	Dec	Dec	March	June	Sept.	Dec	March	June	Sept.	Dec	March	June
Deposit rates													
Current account													
Domestic currency	2.4-6.0	0.0-5.1	0.0-6.0	0.0-6.0	0.0-6.0	0.0-6.0	0.0-6.0	0.3-6.6	0.0-4.8	0.0-4.8	0.0-4.8	0.0-4.8	0.0-4.8
Foreign currency	1.0-3.6	0.3-4.2	0.3-3.0	0.3-3.0	0.3-3.0	0.3-3.0	0.3-3.0	0.3-3.0	0.3-3.0	0.3-3.0	0.3-3.0	0.3-3.0	0.0-3.0
Demand Deposit	1.2-13.2	1.2-9.6	2.4-10.2	2.4-10.2	6.0-10.2	3.6-10.2	1.8-10.0	6.0-10.0	6.0-10.0	6.0-9.6	6.0-9.6	6.0-9.9	6.0-9.9
Time deposit													
Domestic currency 1/	3.6-24.0	2.4-24.0	2.4-10.2	6.0-22.0	6.0-22.0	6.0-22.0	6.0-22.0	6.0-22.0	6.0-20.4	6.0-24.0	6.0-20.4	6.0-20.4	6.0-20.4
Foreign currency 2/	1.2-12.0	1.0-13.2	1.2-12.0	1.2-12.0	1.81-12.0	2.4-12.0	2.4-12.0	2.4-12.0	1.4-12.0	1.4-10.2	1.4-9.6	1.4-9.8	1.4-9.8
Loan rates													
Bank of Mongolia 3/	8.6	8.6	9.9	3.9	15.5	11.3	11.5	9.2	13.3	14.6	15.8	9.5	5.5
Commercial banks 4/													
Domestic currency	34.7	41.4	33.4	32.6	32.4	32.2	31.5	30.3	30.3	32.3	30.0	32.7	30.0
Foreign currency	25.8	22.2	19.8	20.8	20.9	22.6	19.6	19.7	21.8	18.2	17.9	16.3	17.3

Source: Bank of Mongolia.

1/ Up to 1 year.

2/ 1-3 year.

3/ Discount rates on central bank bills with maturity of 14 days.

4/ Loan rates for short-term loans with maturity less than 1 year.

Table 32. Mongolia: Balance of Payments, 1999–2004
(In millions of US dollars, unless indicated otherwise)

	1999	2000	2001	2002	2003	2004
Trade balance	-113.1	-140.2	-169.9	-228.9	-199.3	-149.0
Exports, f.o.b.	454.2	535.8	523.2	523.9	627.3	872.1
Copper	119.2	160.3	147.1	140.2	161.7	284.3
Noncopper	334.9	375.5	376.1	383.7	465.6	587.7
Imports, c.i.f.	-567.3	-676.0	-693.1	-752.8	-826.6	-1,021.1
Services, net	-7.3	-8.4	-22.2	-11.8	-49.3	-60.1
Receipts	100.6	104.2	113.5	184.6	207.9	338.2
Payments	-107.9	-112.6	-135.7	-196.4	-257.2	-398.3
Income, net	-12.8	-12.4	2.9	-4.5	-11.5	-41.4
Official med- and long-term interest payments	-7.8	-9.3	-9.0	-10.8	-11.9	-14.6
Private transfers, net	5.9	8.0	25.0	64.4	74.3	146.3
Official grants	60.2	86.2	72.1	53.0	49.4	86.9
Other grants	6.9	12.4	15.3	20.2	37.8	35.5
Current account balance, including official transfers	-60.3	-54.3	-76.8	-107.6	-98.6	18.1
Financial and capital account	62.4	68.3	79.0	145.4	-29.6	19.3
Direct investment	34.2	40.0	43.0	77.8	131.5	92.9
Portfolio investment	0.0	0.0	0.0	0.0	50.0	-2.5
Medium- and long-term, net	97.2	80.5	68.8	99.0	-170.1	25.5
Disbursements	173.7	151.0	167.2	182.0	175.6	157.2
Amortization	-76.6	-70.5	-98.4	-83.0	-345.7	-131.7
Currency and deposits, net	-22.9	-13.5	3.6	-8.7	-21.0	-74.3
Other private, net (includes short-term capital flow)	-46.1	-38.7	-36.3	-22.7	-20.0	-22.3
Errors and omissions	12.7	20.1	12.5	28.5	30.6	-8.0
Overall balance	14.7	34.1	14.7	66.4	-97.6	29.3
Financing	-14.7	-34.1	-14.7	-66.4	97.6	-29.3
Increase in net official reserves (-)	-30.5	-35.2	-19.5	-65.6	96.8	-34.7
Use of IMF credit (+)	4.2	1.7	-1.7	-4.3	3.0	-7.3
Increase in gross official reserves (-)	-34.7	-36.9	-17.8	-61.4	93.8	-27.4
Arrears accumulation (+) / payments (-) (net)	2.0	-15.8	4.8	-0.7	0.8	5.4
Exceptional financing / rescheduling	13.8	16.8	0.0	0.0	0.0	0.0
Memoranda items:						
Current account balance (in percent of GDP)	-6.7	-5.7	-7.6	-9.6	-7.7	1.2
Net official reserves (end-period)	105.4	140.6	160.1	225.8	128.9	163.6
Gross official reserves (end-period)	156.8	190.9	206.8	271.5	177.7	205.1
(In months of next year/projected imports c.i.f.)	2.8	3.3	3.3	3.9	2.1	2.2
Outstanding arrears (end-period) 1/	15.8	0.0	4.8	4.1	5.4	10.8

Sources: Mongolian authorities; and Fund staff estimates.

1/ Arrears on post-1991 Russian debt. Pre-1991 transfer ruble debt to Russian Federation (US\$11.4 billion), which was settled in 2003, is excluded.

Table 33. Mongolia: Commodity Composition of Exports, 1999–2004
(In millions of U.S. dollars, unless otherwise indicated; unit values are denominated in U.S. dollars)

	1999	2000	2001	2002	2003	2004
Copper concentrate (value)	119.2	160.3	147.1	140.2	161.7	284.3
Volume (concentrate in '000 tons)	492.7	496.0	540.9	548.6	563.2	562.6
Refined copper equivalent	138.0	138.9	146.0	153.6	157.7	157.5
Unit value--refined (per ton)	864.2	1,154.1	1,007.3	912.6	1,025.6	1,804.8
Molybdenum concentrate	9.0	6.2	5.1	10.1	15.0	20.0
Volume (tons)	4,164.4	3,028.2	3,081.8	3,469.0	3,967.3	2,250.2
Unit value (per ton)	2,167.1	2,032.5	1,647.9	2,916.5	3,790.7	8,888.1
Fluorite concentrate	16.8	19.3	19.8	17.0	15.0	11.4
Volume ('000 tons)	164.1	197.1	215.6	192.5	187.5	140.5
Unit value (per ton)	102.7	98.1	92.0	88.1	80.0	81.1
Gold	95.9	69.7	74.7	117.6	157.3	239.9
Volume (kg)	10,960.3	7,839.8	8,328.7	12,388.3	14,220.6	19,043.6
Unit value (per kg)	8,752.1	8,892.0	8,966.9	9,496.5	11,061.1	12,597.4
Sawn wood	4.9	0.3	0.0	0.0	0.0	0.0
Volume ('000 cubic meters)	38.3	2.5	0.1	0.0	0.0	0.2
Unit value (per cubic meter)	126.7	126.7	219.3	...	...	134.0
Cashmere tops	2.2	0.6	0.3	0.9	1.8	1.1
Volume (tons)	41.5	7.1	2.8	15.4	28.1	12.7
Unit value (per kg)	52.4	89.9	103.0	59.1	63.1	82.7
Cashmere, dehaired	45.9	54.5	55.0	30.5	25.7	44.1
Volume (tons)	1,168.3	770.2	1,006.6	632.3	563.1	831.7
Unit value (per kg)	39.3	70.8	54.7	48.3	45.6	53.0
Cashmere garments	7.8	13.0	11.6	12.8	15.1	33.1
Volume ('000 pieces)	314.5	428.5	325.2	483.6	645.5	1,500.1
Unit value (per piece)	24.8	30.4	35.7	26.4	23.4	22.1
Cashmere, greasy/raw	14.4	21.9	0.9	0.9	1.1	0.6
Volume (tons)	799.5	717.2	50.2	53.7	67.1	43.4
Unit value (per kg)	18.0	30.5	17.3	16.8	17.0	13.8
Textiles	18.4	73.2	44.2	34.6	74.8	96.5
Volume ('000 pieces)	4,399.6	6,696.7	10,066.8	11,310.8	21,648.0	26,900.6
Unit price	4.2	10.9	4.4	3.1	3.5	3.6
Camel wool, raw	1.7	1.7	2.2	0.7	0.7	0.7
Volume (tons)	893.3	836.8	964.0	345.0	354.8	281.8
Unit value (per kg)	1.9	2.0	2.3	2.1	1.9	2.4
Skin and hides	23.9	34.9	16.3	11.3	6.1	5.9
Volume ('000 pieces)	2,688.2	4,395.8	1,579.0	1,332.2	409.5	406.4
Unit price	8.9	8.0	10.3	8.5	14.8	14.4
Sheepskin coats	0.1	0.2	0.3	0.1	0.2	0.2
Volume ('000 pieces)	6.1	1.1	1.4	1.2	1.0	0.8
Unit value (per piece)	17.2	218.6	222.2	111.6	233.1	205.1
Carpets	0.9	1.4	0.0	0.9	0.0	0.0
Volume ('000 square meters)	28.9	68.1	0.0	101.0	0.0	0.0
Unit value (per square meter)	32.1	19.9	...	9.4	...	...
Meat	13.2	15.8	12.0	20.5	15.7	13.2
Volume ('000 tons)	13.2	16.7	13.5	17.2	11.0	52.2
Unit value (per ton)	997.7	948.2	888.0	1,187.5	1,434.2	252.2
Scrap Metal	5.6	5.2	4.0	3.5	3.7	8.7
Volume ('000 tons)	17.1	20.2	10.7	8.6	8.0	8.7
Unit value (per ton)	325.0	259.1	371.7	411.7	467.6	1,002.2
Other	74.2	57.5	157.6	122.3	133.3	112.5
Total	454.2	535.8	523.2	523.9	627.3	872.1

Sources: Mongolian authorities; and Fund staff estimates.

Table 34. Mongolia: Commodity Composition of Imports, 1999–2004
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004
Food	60.8	101.9	113.1	129.5	112.4	157.3
Live animals and animal products	1.1	2.1	4.9	5.3	5.7	5.7
Vegetable products	18.0	46.4	51.0	58.3	36.4	69.3
Animal and vegetable oil	5.6	6.1	6.8	9.4	10.2	9.6
Prepared food	36.1	47.2	50.4	56.6	60.0	72.7
Energy	85.2	120.3	143.8	132.7	161.3	231.3
Of which: Petroleum products	71.8	109.8	124.0	110.0	142.5	210.2
Equipment Goods	231.1	200.3	180.4	209.9	250.4	305.4
Machinery and equipment	176.7	133.3	112.5	134.4	165.0	201.5
Vehicles and transportation equipment	54.4	67.0	67.9	75.5	85.4	103.9
Raw Materials and Spare Parts	44.3	56.4	73.2	77.3	106.6	135.3
Chemical products	20.2	28.1	33.0	34.5	42.1	46.6
Raw hides and skins	0.4	0.2	0.7	0.5	0.4	0.6
Building materials	4.4	5.5	9.8	10.9	21.0	17.1
Metals	19.3	22.7	29.8	31.4	43.0	71.0
Consumer Goods	91.3	135.6	119.5	141.3	156.7	181.7
Rubber products	12.6	13.3	15.1	19.1	21.6	25.7
Wood and wood products	0.9	1.7	2.2	3.2	4.3	4.3
Cellulosic materials	6.2	8.7	10.3	14.9	25.3	19.1
Textile	46.2	79.9	63.3	84.2	82.0	100.9
Footwear and clothes	1.2	1.8	2.2	1.9	1.6	1.6
Measuring instruments	17.2	21.1	17.5	9.0	9.7	16.5
Manufactured articles	7.0	9.1	8.9	9.0	12.1	13.5
Other imports	51.3	61.5	63.0	62.0	39.2	10.1
Total (c.i.f)	567.3	676.0	693.1	752.8	826.6	1,021.1
Memorandum items:						
Nonfood imports	506.5	574.1	580.0	623.3	714.2	863.8
Nonenergy imports	482.1	555.7	549.3	620.1	665.3	789.8

Sources: Mongolian authorities; and Fund staff estimates.

Table 35. Mongolia: Direction of Trade, 2000–2004

(In percent of total exports or imports)

	1999	2000	2001	2002	2003	2004
Exports 1/	100.0	100.0	100.0	100.0	100.0	100.0
Countries of the former CMEA	13.7	10.4	10.6	9.2	7.2	3.2
Former U.S.S.R.	13.6	10.4	10.6	9.1	7.2	3.2
Russia	13.5	9.7	10.3	8.6	6.3	2.4
Kazakhstan	0.1	0.2	0.2	0.1	0.5	0.0
Other	0.0	0.5	0.0	0.4	0.5	0.8
Korea, Democratic People's Republic of	0.1	0.0	0.0	0.0	0.0	0.0
EU countries	10.0	7.5	6.5	6.5	7.4	21.4
Belgium	0.3	0.3	0.3	0.0	0.1	0.1
France	0.2	0.4	0.0	0.0	0.3	1.8
Germany	0.7	0.4	0.6	0.5	0.8	1.3
Italy	4.1	3.1	3.0	1.7	1.5	2.0
Netherlands	1.0	0.7	0.7	0.5	0.4	0.4
United Kingdom	3.8	2.4	1.7	3.5	4.4	15.8
Other	0.0	0.1	0.0	0.2	0.0	0.0
Other	76.4	82.1	83.0	84.4	85.3	75.3
China	57.1	57.3	53.7	41.7	46.1	46.8
Hong Kong, China	1.0	1.6	1.5	0.6	0.5	0.8
Japan	3.0	1.7	3.3	1.3	1.4	3.8
Korea	0.6	0.6	0.9	4.4	1.2	1.1
Singapore	0.3	0.0	0.0	0.0	5.8	2.3
Switzerland	0.2	0.2	0.1	0.1	0.1	0.2
United States	12.9	19.9	22.0	31.6	23.3	18.0
Other	1.3	0.8	1.6	4.5	6.9	2.3
Imports	100.0	100.0	100.0	100.0	100.0	100.0
Countries of the former CMEA	33.3	37.5	40.9	38.5	37.6	41.0
Former U.S.S.R.	30.5	35.8	38.7	36.7	35.2	38.8
Russia	29.2	33.6	36.4	34.1	32.6	33.5
Kazakhstan	0.1	1.1	0.6	1.1	0.6	2.6
Other	1.2	1.2	1.7	1.6	1.9	2.7
Bulgaria	0.6	0.0	0.2	0.1	0.2	0.2
Former Czechoslovakia 2/	1.0	0.6	1.0	0.5	0.7	0.5
Hungary	0.3	0.3	0.2	0.2	0.5	0.7
Poland	0.9	0.8	0.7	0.8	1.0	0.9
EU countries	10.3	11.4	10.6	8.3	11.0	8.3
Denmark	0.6	0.7	1.3	0.4	0.5	0.5
France	1.7	1.4	0.9	0.7	1.4	1.5
Germany	4.6	4.8	5.1	4.5	4.8	3.3
United Kingdom	0.8	1.0	0.7	0.4	0.5	0.4
Austria	0.1	0.3	0.1	0.1	0.7	0.5
Finland	1.1	0.8	0.6	0.5	0.3	0.2
Other	1.5	1.4	1.2	1.6	2.8	1.9
Other	56.4	51.1	48.5	53.2	51.4	50.7
China	13.5	17.8	19.3	20.2	21.8	22.0
Hong Kong, China	1.1	2.6	2.5	4.3	3.0	3.2
India	0.4	0.3	0.2	0.2	0.1	0.1
Japan	22.4	11.9	9.5	6.2	8.0	7.3
Korea	7.1	9.0	9.7	12.2	8.5	6.0
Singapore	1.8	1.7	1.5	1.7	1.3	1.5
Switzerland	0.5	0.5	0.8	0.5	0.6	0.4
United States	6.1	4.6	2.5	3.5	2.9	4.6
Other	3.6	3.6	3.2	4.7	5.3	5.7

Sources: Mongolian authorities; and Fund staff estimates.

1/ Data for exports of copper refer to country of initial purchaser rather than country of destination of final product.

2/ Data after 1993 refer to Czech Republic and Slovak Republic.

Table 36. Mongolia: Services and Income Accounts, 1999–2004
(In millions of U.S. dollars)

	1999		2000		2001		2002		2003		2004	
	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments
SERVICES												
Passenger fares	7.3	3.5	7.3	3.4	10.1	4.4	13.0	6.0	11.0	5.9	19.6	13.6
Railway	2.2	1.2	1.9	1.1	3.7	1.1	6.0	1.9	4.1	1.5	14.3	9.9
Airline	5.1	2.3	5.4	2.3	6.4	3.3	7.0	4.1	6.9	4.4	5.3	3.7
Port services	2.9	24.5	3.1	12.3	3.1	23.6	1.9	18.2	5.4	35.3	28.7	31.1
Transit fees	18.8	1.2	20.9	1.6	22.6	2.4	23.9	2.7	24.1	3.0	29.0	2.2
Travel	35.6	40.9	35.9	51.3	39.3	55.3	130.1	119.2	143.0	107.5	185.1	147.8
Embassy expenses abroad	2.0	5.5	3.4	5.3	3.9	5.3	4.8	5.6	4.8	5.9	9.2	5.4
Embassies/international organizations	0.5	0.0	0.5	0.0	0.4	2.4	0.4	2.4	0.4	2.7	0.4	2.7
Commissions	0.0	0.5	4.3	0.8	0.0	1.0	0.0	0.8	0.0	0.8	2.0	0.0
Communications	7.5	4.2	7.7	4.4	7.7	4.4	6.0	8.6	4.8	7.4	4.8	9.1
Technical Assistance	0.0	7.5	0.0	13.2	0.0	15.3	0.0	21.0	0.0	38.4	0.0	19.9
Other	26.1	20.1	21.1	20.3	26.4	21.6	4.5	11.9	14.4	50.3	59.4	166.5
Total	100.6	108.0	104.2	112.6	113.5	135.7	184.6	196.4	207.9	257.2	338.2	398.3
INCOME												
Direct investment income	0.0	2.9	0.0	5.3	0.0	3.4	0.0	5.2	0.0	6.8	0.0	39.5
Interest on bank deposits	6.7	0.0	11.0	0.0	10.8	0.1	5.7	0.8	5.1	1.9	8.5	0.0
Interest on debt	0.0	15.9	0.0	19.4	0.0	13.6	0.0	10.8	0.0	11.9	0.0	14.6
Official Medium- and long-term	0.0	7.9	0.0	9.3	0.0	9.0	0.0	10.8	0.0	11.9	0.0	14.6
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Sector	0.0	8.0	0.0	10.1	0.0	4.5	0.0	2.5	0.0	3.8	0.0	1.3
Interest on trade credit	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.5	0.0	0.9	0.0	2.6
Other interest	0.0	0.3	2.0	0.3	9.9	0.3	8.4	1.3	8.8	3.9	8.1	0.0
Total	6.7	19.5	13.0	25.4	20.7	17.8	14.1	18.6	13.9	25.4	16.6	58.0

Sources: Mongolian authorities; and Fund staff estimates.

Table 37. Mongolia: Medium- and Long-Term Loan Disbursements, 1999–2004
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004
Official loans	101.9	71.0	84.2	83.8	101.2	128.7
Japan	32.5	20.2	16.3	14.0	17.7	25.1
Germany	4.8	4.8	9.9	8.1	6.9	5.8
Korea	2.5	0.0	0.5	16.2	4.6	0.0
Norway	0.4	0.0	0.0	0.0	0.0	3.6
Spain	0.0	0.0	0.0	0.0	0.0	2.8
Kuwait	1.0	1.1	3.8	3.9	3.2	1.8
World Bank	13.0	13.3	23.0	14.4	27.7	48.9
Balance of payments support	0.0	0.0	11.1	0.0	5.8	5.8
Project	12.6	13.1	11.3	14.2	21.4	39.2
Technical assistance	0.4	0.2	0.6	0.2	0.5	3.9
Asian Development Bank	47.1	31.3	30.0	26.5	39.5	39.4
Balance of payments support	16.1	12.2	10.0	0.0	20.1	5.0
Project	31.0	19.1	20.0	26.5	19.4	34.4
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.6	0.3	0.7	0.7	1.6	1.1
Commercial loans	71.9	80.0	82.9	98.2	74.4	28.5
Total	173.7	151.0	167.2	182.0	175.6	157.2

Sources: Ministry of Finance and Economy; and Fund staff estimates.

Table 38. Mongolia: Short-Term Capital Flows, 1999–2004
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004
Import credits	-9.5	-6.6	-11.5	-8.5	-20.3	4.8
Inflows	3.4	5.4	5.0	1.8	2.7	4.8
Erdenet	3.0	5.0	4.3	1.5	1.8	4.0
Others	0.4	0.4	0.7	0.3	0.9	0.8
Outflows	12.9	12.0	16.5	10.3	23.0	...
Erdenet	12.9	9.5	16.5	10.3	23.0	...
Trade credit extended on exports	-0.3	4.1	3.3	6.6	-8.7	-0.6
Inflows	5.2	6.5	4.5	7.7	0.0	0.0
Erdenet	5.2	6.5	4.5	7.7	...	...
Outflows	5.5	2.4	1.2	1.1	8.7	0.6
Others	5.5	2.4	1.2	1.1	8.7	0.6
Others	-3.1	-7.2	-7.1	...	...	...
Inflows	10.0	10.9	11.8	...	...	...
Erdenet	3.0	4.1	3.7	...	...	...
Others	7.0	6.8	8.1	...	...	...
Outflows	13.1	18.1	18.9	...	...	...
Erdenet	5.9	7.7	7.9	...	...	...
Others	7.2	10.4	11.0	...	...	...
Total 1/	-12.9	-9.7	-15.3	-1.9	-29.0	4.2

Sources: Mongolian authorities; and Fund staff estimates.

1/ As data for others are not available from 2002, total is calculated without others after 2002.

Table 39. Mongolia: Official Reserves of the Bank of Mongolia, 2000-05

	2000	2001	2002	2003				2004				2005	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
	(in millions of US dollars)												
Net international reserves	140.6	160.0	225.7	212.9	235.1	260.0	129.0	149.7	156.1	153.9	163.5	186.4	212.3
Assets	190.8	206.8	268.3	253.1	274.0	308.0	203.5	196.0	201.2	197.5	207.8	227.8	251.3
Foreign exchange	168.3	155.6	218.5	222.7	232.9	273.7	196.9	178.9	160.5	138.4	193.7	180.0	190.4
Cash	3.6	7.3	12.2	12.1	14.6	14.2	11.3	13.4	7.6	11.6	10.1	6.9	9.9
SDR holdings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Demand deposits	6.5	2.0	1.7	30.1	50.0	79.2	6.3	92.6	51.2	21.0	1.7	23.7	45.1
Foreign government bills	43.6	21.6	45.4	33.2	33.2	33.2	66.1	29.0	19.4	8.7	50.7	10.0	21.9
Time deposits	114.5	124.6	159.0	147.1	134.8	146.8	113.0	43.7	82.2	96.8	131.1	139.3	113.2
Reserve position in the IMF	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Monetary gold	22.5	51.1	49.8	30.4	41.2	34.3	6.7	17.2	40.8	59.1	14.1	47.7	61.0
Liabilities (official short-term)	50.2	46.8	42.6	40.2	39.0	48.0	74.6	46.4	45.1	43.6	44.3	41.4	39.0
Use of Fund Credit and Loans from the IMF	50.2	46.8	42.6	40.2	39.0	48.0	49.6	46.4	45.1	43.6	44.3	41.4	39.0
Borrowing from banks abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonresident deposits	0.0	0.0	0.0	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	2.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: BOM, IMF Treasurer's Department.

Table 40. Mongolia: Selected Indicators of Commercial Bank Foreign Exchange Operations, 2000-05

	2000	2001	2002	2003	2004	2005 Jun.
Foreign assets (US\$ million)	48.6	47.5	62.9	113.3	113.8	142.7
Cash	4.3	6.6	11.2	15.2	23.2	22.5
Demand deposits	6.1	13.2	17.3	33.0	27.2	34.6
Time deposits	38.1	27.6	34.4	65.0	57.0	75.6
Other assets	0.1	0.0	0.0	0.1	6.3	10.0
Foreign liabilities (US\$ million)	5.3	8.0	14.6	44.0	44.4	39.7
Deposits of foreign banks and nonresidents	1.0	1.5	2.7	3.9	34.0	28.5
Loans from foreign banks	0.5	0.5	1.5	2.4	3.0	5.7
Other foreign liabilities	3.8	6.0	10.4	37.8	7.3	5.5
Foreign currency denominated loans (US\$ million)	25.0	45.4	77.4	163.0	239.2	294.6
Summary indicators (in percent)						
FC loans/total loans	40.3	36.4	37.0	42.4	44.8	46.4
Nonperforming loans/total loans (Forex)	17.7	5.9	7.5	9.9	10.9	11.6
Nonperforming loans/total loans (tugrik)	28.1	9.3	6.9	7.1	11.3	8.9
Foreign currency deposits (US\$ million)	63.0	79.2	120.2	214.2	268.2	302.1
Summary indicators (in percent)						
FC deposits/total deposits	43.7	39.3	38.7	43.8	46.1	43.3
Forex current accounts/total current accounts	54.2	46.2	48.9	61.0	58.2	58.4
FC demand deposits/total demand deposits	47.2	51.6	48.6	49.3	56.9	48.9
FC time and savings deposits/total time and savings d	31.7	29.6	27.6	29.7	37.8	33.6

Source: Bank of Mongolia; and Fund staff estimates.

Table 41. Mongolia: External Debt and Debt Service, 1999–2004

	1999	2000	2001	2002	2003	2004
(In millions of US dollars)						
External debt	827.8	837.0	853.5	978.1	1,237.0	1,360.1
Medium- and long-term	776.4	786.7	806.7	936.1	1,138.1	1,315.9
IMF	51.4	50.3	46.8	42.0	48.9	44.2
Short-term 1/	0.0	0.0	0.0	0.0	50.0	0.0
Debt service	31.9	24.1	33.9	32.0	284.0	91.1
Amortization	24.1	14.8	24.8	20.9	272.3	75.2
Interest	7.8	9.3	9.0	11.1	11.6	15.9
Medium- and long-term	27.9	17.5	26.8	24.2	275.2	32.3
Amortization	20.3	8.5	18.0	13.2	263.8	17.9
Interest	7.6	9.0	8.8	11.0	11.4	14.4
IMF	4.0	6.6	7.1	7.8	8.7	7.5
Repurchase/Repayments	3.8	6.3	6.8	7.7	8.5	7.3
Charges	0.2	0.3	0.2	0.1	0.2	0.2
Short-term 1/	0.0	0.0	0.0	0.0	0.0	51.3
(In percent)						
External debt/GDP	91.4	90.1	84.3	88.7	99.1	90.9
Medium- and long-term	85.7	84.7	79.7	84.9	91.1	88.0
IMF	5.7	5.4	4.6	3.8	3.9	3.0
Short-term 1/	0.0	0.0	0.0	0.0	4.0	0.0
External debt/exports of goods & services	149.2	130.8	134.1	138.1	148.1	112.4
Medium- and long-term	139.9	122.9	126.7	132.1	136.3	108.7
IMF	9.3	7.9	7.4	5.9	5.9	3.7
Short-term 1/	0.0	0.0	0.0	0.0	6.0	0.0
Debt-service ratio 2/	5.7	3.8	5.3	4.5	34.0	7.5
Amortization	4.3	2.3	3.9	2.9	32.6	6.2
Interest	1.4	1.5	1.4	1.6	1.4	1.3
Medium- and long-term	5.0	2.7	4.2	3.4	33.0	2.7
Amortization	3.7	1.3	2.8	1.9	31.6	1.5
Interest	1.4	1.4	1.4	1.6	1.4	1.2
IMF	0.7	1.0	1.1	1.1	1.0	0.6
Repurchase/repayments	0.7	1.0	1.1	1.1	1.0	0.6
Charges	0.0	0.0	0.0	0.0	0.0	0.0
Short-term 1/	0.0	0.0	0.0	0.0	0.0	4.2

Sources: Mongolian authorities; and Fund staff estimates.

1/ Includes treasury bill in US\$ to nonresident issued in relation to pre-1991 Russian debt settlement.

2/ In percent of goods and services.

Table 42. Mongolia: External Debt Stock by Creditor, 1999–2004
(In millions of U.S. dollars, end of period)

	1999	2000	2001	2002	2003	2004
External Debt	827.8	837.0	853.5	978.1	1,237.0	1,360.1
Medium and long-term official (excluding IMF)	776.4	786.7	806.6	936.1	1,138.1	1,315.9
Multilateral (excluding IMF)	412.5	437.1	476.5	548.0	668.8	796.1
Asian Development Bank	281.6	298.8	319.3	366.1	439.1	502.6
World Bank	129.6	136.9	155.1	179.0	225.0	287.3
IFAD	1.3	1.5	2.1	2.9	4.7	6.2
Bilateral official	350.9	336.5	317.1	375.1	456.3	506.8
Paris Club	322.3	306.6	283.5	322.2	395.7	444.1
Japan	214.8	208.4	193.6	219.3	261.8	293.4
Russia	51.5	43.2	26.4	24.5	22.1	16.7
Germany	37.6	37.5	46.5	59.9	77.9	90.3
Finland	6.2	6.1	6.0	5.9	7.9	8.8
Norway	12.1	11.5	11.1	12.5	17.1	21.9
Spain	0.0	0.0	0.0	0.0	8.8	12.9
Non-Paris Club	28.6	29.9	33.5	52.9	60.6	62.8
China	15.5	15.5	15.5	15.0	15.0	15.0
Korea	8.7	8.1	7.9	24.5	30.2	31.7
India	1.2	1.0	0.9	0.7	0.6	0.4
Kuwait	3.3	5.3	9.2	12.7	14.8	15.6
Treasury bill in US\$ to nonresidents	0.0	0.0	0.0	0.0	50.0	0.0
IMF	51.4	50.3	46.8	42.0	48.9	44.2
Commercial	13.0	13.0	13.0	13.0	13.0	13.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Finance and Economy; and Fund staff estimates.

Table 43. Mongolia: Monthly Exchange Rates, 2001–05
(In togrogs per U.S. dollar, period average)

	Official rate 1/	Interbank rate 2/	Street rate
2001			
January	1,097.8	1,098.7	1,101.5
February	1,099.0	1,099.2	1,099.8
March	1,098.0	1,098.1	1,098.3
April	1,093.0	1,092.7	1,092.3
May	1,092.5	1,092.7	1,094.1
June	1,096.0	1,096.1	1,097.5
July	1,096.7	1,096.9	1,098.1
August	1,098.4	1,098.6	1,100.2
September	1,099.5	1,099.2	1,099.4
October	1,099.6	1,099.7	1,100.2
November	1,100.0	1,100.2	1,101.1
December	1,101.3	1,101.4	1,102.1
2002			
January	1,102.0	1,102.2	1,103.0
February	1,103.4	1,103.4	1,103.5
March	1,104.0	1,103.9	1,103.5
April	1,104.0	1,103.7	1,103.2
May	1,103.4	1,103.1	1,103.1
June	1,104.0	1,104.1	1,104.9
July	1,108.4	1,109.3	1,110.0
August	1,113.2	1,115.2	1,115.4
September	1,116.1	1,116.5	1,117.0
October	1,119.0	1,119.8	1,120.0
November	1,122.2	1,122.8	1,123.1
December	1,124.1	1,124.5	1,125.0
2003			
January	1,129.4	1,130.0	1,130.0
February	1,134.1	1,134.7	1,135.0
March	1,139.7	1,139.8	1,140.0
April	1,136.2	1,135.9	1,136.9
May	1,130.0	1,129.8	1,130.8
June	1,133.7	1,134.6	1,135.0
July	1,146.6	1,148.6	1,148.9
August	1,152.2	1,153.2	1,154.0
September	1,156.6	1,158.0	1,158.0
October	1,161.4	1,162.7	1,163.0
November	1,168.3	1,169.9	1,170.0
December	1,170.3	1,170.6	1,171.0
2004			
January	1,170.2	1,170.9	1,171.0
February	1,173.2	1,173.9	1,174.0
March	1,177.5	1,177.9	1,178.0
April	1,173.0	1,173.2	1,174.0
May	1,163.2	1,163.5	1,164.0
June	1,166.6	1,167.3	1,168.0
July	1,181.8	1,184.3	1,185.0
August	1,191.6	1,194.3	1,195.0
September	1,198.9	1,200.4	1,200.5
October	1,204.4	1,206.7	1,207.2
November	1,210.2	1,212.4	1,215.0
December	1,211.8	1,215.5	1,216.6
2005			
January	1,210.9	1,213.2	1,215.4
February	1,208.5	1,210.9	1,212.7
March	1,202.7	1,202.2	1,201.7
April	1,186.9	1,187.4	1,189.1
May	1,188.0	1,188.6	1,189.6
June	1,190.5	1,191.8	1,193.1

Source: Bank of Mongolia.

1/ Midpoint rate announced by the Bank of Mongolia.

2/ Midpoint rate established in the interbank foreign exchange market.