

Table 1. Mongolia: Quantitative Performance Criteria and Indicative Targets Under the PRGF Arrangement, 2001–02 1/

	2001			2002									
	End-Dec.			End-March			End-June			End-Dec.			
	Performance	Adjusted	Actual	Indicative	Adjusted	Actual	Performance	Adjusted	Actual	Indicative	Indicative	Adjusted	Actual
	Criteria	Targets		Targets 15/	Targets		Criteria 15/	Targets		Targets 15/	Targets	Targets	
EBS/01/166			EBS/01/166			EBS/01/166			EBS/01/166	Dec. 02			
Quantitative Performance Criteria	(In billions of togrogs)												
1. Net bank credit to government (ceiling) 2/ 3/ 4/ 5/	-16.8	-16.2	-18.7	1.5	-0.9	4.3	1.8	1.0	9.3	-29.6	-23.8	-26.5	-27.7
2. Net domestic assets of the Bank of Mongolia (stock, ceiling) 4/ 6/ 7/	-28.9	-27.3	-30.4	-28.9	-31.1	-32.6	-29.4	-27.7	-10.1	-40.4	-43.5	-62.0	-67.0
3. Domestic interest arrears (stock, ceiling) 9/	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
	(In millions of U.S. dollars, unless otherwise indicated)												
4. Net international reserves of the Bank of Mongolia (stock, floor) 7/	160.6	159.7	158.9	161.0	163.0	159.7	170.0	166.8	169.3	185.6	196.0	188.5	219.4
5. New nonconcessional external debt contracted or guaranteed by the government or the BOM (ceiling)													
Maturities of less than 1 year 3/ 11/ 12/	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
Maturities of 1–12 years 3/ 11/	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
6. External payments arrears (stock, ceiling) 9/ 13/	0.0	0.0	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Target													
Net domestic assets of the banking system (stock, ceiling) 4/ 7/ 14/ (In billions of togrogs)	70.0	71.7	113.2	82.7	80.5	127.6	89.2	93.2	178.3	64.7	160.8	169.5	172.3
Memorandum items :													
BOM's monetary gold pledged as collateral for external loans to domestic private companies	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0
Balance of payments support 3/ Excluding disbursements from the IMF	22.5		21.6	0.0		2.0	5.2		2.0	20.5		21.6	14.1
External budgetary assistance (program loans) 3/ (In billions of togrogs)	25.4		23.8	0.0		2.2	6.1		2.2	24.2		24.4	15.7
Privatization receipts 3/ (In billions of togrogs)	10.2		5.6	0.0		0.2	0.0		1.6	9.7		19.5	16.8
Transfer from the BOM to government 3/ (In billions of togrogs)	11.3		12.3	0.0		0.0	0.0		3.1	1.7		5.0	16.4
Reserve money (In billions of togrogs)	147.6	147.6	144.1	148.1	148.1	142.8	157.4	158.0	176.0	163.6	172.7	179.5	175.0
Togrogs per U.S. dollar	1097		1097	1097		1097	1097		1097	1097		1102	1102
U.S. dollars per SDR	1.25		1.25	1.25		1.25	1.25		1.25	1.25		1.29	1.29
Monetary gold prices (U.S. dollars per ounce)	270.6		270.6	270.6		270.6	270.6		270.6	270.6		290.0	290.0

1/ The technical memorandum of understanding (TMU) attached to EBS/01/166 sets out the definitions for the above targets under which Mongolia's performance under the program was to be assessed.

2/ Defined as net claims on government in the monetary survey.

3/ Cumulative from the beginning of the year.

4/ The targets will be adjusted downward (upward) by the amount of external budgetary assistance in excess of (lower than) that programmed as set out in the above table.

5/ The targets will be adjusted downward by the amount of privatization receipts in excess of that programmed as set out in the above table.

The targets will be adjusted downward by the amount of transfer from the BOM to government in excess of that programmed as set out in the above table.

6/ Defined as the difference between net foreign assets of the monetary authorities and reserve money. Foreign currency-denominated items will be valued at program exchange rates.

7/ The ceilings and floors specified are adjusted to exclude monetary gold pledged as collateral for external loans to domestic private companies.

8/ The targets will be adjusted downward by 80 percent of the amount of net international reserves of the BOM in excess of that programmed as set out in the above table.

9/ Applicable on a continuous basis.

10/ The targets will be adjusted upward (downward) by the amount of balance of payments support, excluding disbursements from the IMF, in excess of (lower than) that programmed as set out in the above table.

11/ For the definition of external debt, see Annex II of the above-mentioned TMU.

Excludes changes in indebtedness resulting from rescheduling operations (including deferral of interest on commercial debt), disbursements from the Fund, loans from the Export-Import Bank of China for the zinc mine project, normal import-related trade credits, and those with grants element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates (CIRRs).

12/ Short-term loans include domestic private company borrowings from an international metals trading company under an administrative guarantee by the BOM which is backed by BOM's monetary gold.

13/ Excludes external debt in arrears that is in dispute.

14/ Defined as broad money less net foreign assets of the banking system.

15/ The indicative targets for end-March and end-December 2002 and the performance criteria for end-June 2002 were to be revised at the time of the first PRGF review.

Table 2. Mongolia: Quantitative Performance Criteria and Indicative Targets Under the PRGF Arrangement, 2002–March 2004 1/

	2002			2003						2004		
	End-Dec.			End-March			End-June			End-Sept.	End-Dec.	End-March
	Indicative Targets	Adjusted Targets	Actual	Indicative Targets	Adjusted Targets	Actual	Indicative Targets	Adjusted Targets	Actual	Performance Criteria	Indicative Targets	Performance Criteria 15/
(In billions of togrogs)												
1. Net bank credit to government (ceiling) 2/ 3/ 4/ 5/	-23.8	-26.5	-27.8	10.0	10.9	-4.5	15.0	39.1	-13.0	-5.0	-20.8	5.0
2. Net domestic assets of the Bank of Mongolia (stock, ceiling) 4/ 6/ 7/ 8/	-43.5	-62.0	-74.8	-65.9	-57.4	-58.6	-65.3	-61.8	-68.3	-68.8	-81.7	-76.5
3. Domestic interest arrears (stock, ceiling) 9/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Net international reserves of the Bank of Mongolia (stock, floor) 7/ 10/	196.0	188.5	222.2	222.0	214.5	212.7	233.0	215.7	233.9	245.0	250.0	250.0
5. New nonconcessional external debt contracted or guaranteed by the government or the BOM (ceiling)												
Maturities of less than 1 year 3/ 11/ 12/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maturities of 1–12 years 3/ 11/ 16/	0.0	0.0	0.0	0.0	0.0	0.0	26.5	26.5	26.5	26.5	26.5	26.5
6. External payments arrears (stock, ceiling) 9/ 13/	0.0	0.0	0.0	4.1	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Target												
Net domestic assets of the banking system (stock, ceiling) 4/ 7/ 14/ (In billions of togrogs)	160.8	169.5	165.8	189.7	198.2	199.2	235.1	254.6	239.4	240.0	252.0	269.5
Memorandum items :												
BOM's monetary gold pledged as collateral for external loans to domestic private companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance of payments support 3/ Excluding disbursements from the IMF	21.6	14.1	7.5	0.0	17.3	0.0	17.3	20.0	17.3	20.0	5.0	5.0
External budgetary assistance (program loans) 3/ (In billions of togrogs)	24.4	15.7	8.5	0.0	19.5	0.0	19.5	22.6	19.5	22.6	5.7	5.7
Privatization receipts 3/ (In billions of togrogs)	19.5	16.8	0.5	8.1	8.2	8.6	8.5	11.1	19.5	11.1	0.5	0.5
Transfer from the BOM to government 3/ (In billions of togrogs)	5.0	16.4	0.0	0.0	5.0	0.0	5.0	5.0	5.0	5.0	0.0	0.0
Reserve money (In billions of togrogs)	172.7	179.5	175.3	184.0	184.0	180.8	197.0	201.0	195.1	207.0	199.7	204.9
Togrogs per U.S. dollar	1102	1,125	1,125	1,125	1,125	1,125	1,125	1,125	1,125	1,125	1,125	1,125
U.S. dollars per SDR	1.29	1.362	1.362	1.362	1.362	1.362	1.362	1.362	1.362	1.362	1.362	1.362
Monetary gold prices (U.S. dollars per ounce)	290.0	325.38	325.38	325.38	325.38	325.38	325.38	325.38	325.38	325.38	325.38	325.38

1/ The attached technical memorandum of understanding (TMU) sets out the definitions for the above targets under which Mongolia's performance under the program will be assessed.

2/ Defined as net claims on government in the monetary survey.

3/ Cumulative from the beginning of the year.

4/ The targets will be adjusted downward (upward) by the amount of external budgetary assistance in excess of (lower than) that programmed as set out in the above table.

5/ The targets will be adjusted downward by the amount of privatization receipts in excess of that programmed as set out in the above table.

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6/ Defined as the difference between net foreign assets of the monetary authorities and reserve money. Foreign currency-denominated items will be valued at program exchange rates.

7/ The ceilings and floors specified are adjusted to exclude monetary gold pledged as collateral for external loans to domestic private companies.

8/ The targets will be adjusted downward by 80 percent of the amount of net international reserves of the BOM in excess of that programmed as set out in the above table.

9/ Applicable on a continuous basis.

10/ The targets will be adjusted upward (downward) by the amount of balance of payments support, excluding disbursements from the IMF, in excess of (lower than) that programmed as set out in the above table.

11/ For the definition of external debt, see Annex II of the above-mentioned TMU.

Excludes changes in indebtedness resulting from rescheduling operations (including deferral of interest on commercial debt), disbursements from the Fund, loans from the Export-Import Bank of China for the zinc mine project, normal import-related trade credits, and those with grants element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates (CIRRs).

12/ Short-term loans include domestic private company borrowings from an international metals trading company under an administrative guarantee by the BOM which is backed by BOM's monetary gold.

13/ Excludes external debt in arrears that is in dispute.

14/ Defined as broad money less net foreign assets of the banking system.

15/ The performance criteria for end-March will be revised at the time of the third PRGF review.

16/ Figures after end-June 2003 reflect nonconcessional suppliers' credits for Durgun hydropower station.

Table 3. Mongolia: Structural Benchmarks and Performance Criteria
Under the PRGF Arrangement, 2001–02

	Policy Action	Timing	Status
A.	Structural Performance Criteria		
1.	Secure Parliamentary approval of amendment to Budget Law to clarify and strengthen the accountability of local government officials with respect to the control and reporting of bank accounts and the enforcement of Cabinet regulations and directives from the head of treasury, including by specifying the penalties for arrears accumulation and the misuse of public funds.	End-December 2001	Observed.
2.	Secure Parliamentary approval of legislation to centralize the proceeds from VAT collected at all levels of government and assign a fixed percentage of VAT receipts to the local government sector as a whole.	End-December 2001	Observed.
3.	Complete transfer of all pilot entities' deposits to the TSA, adopt a Cabinet resolution to extend the TSA to all line ministries and Ulaanbaatar City and close all their off-budget accounts, and initiate transfer of remaining central government deposits to the TSA.	End-December 2001	Largely observed, albeit with delay; while some accounts of the social insurance funds, a pilot entity, and donor-controlled project implementation accounts have not yet been transferred to the TSA at the BOM, this is due primarily to technical factors that are outside the government's control.
4.	Obtain Parliamentary approval of 2002 Budget in line with the macroeconomic framework agreed with the IMF, including adequate allocations for a continuing reduction of arrears and expenditure saving reforms and a wage and employment policy consistent with the maintenance of current spending within the agreed envelope.	End-December 2001	Not observed. An amended budget for 2002 approved by Parliament on August 30, 2002 was more in line with staff recommendations than the initially approved budget, but wages and pensions were raised by 20 percent with effect from October 2002 against the staff's advice and current expenditure continued to exceed program targets.
5.	Require local governments to adopt the same reporting standards on bank accounts as the central government and to provide monthly reports on their account balances.	End-April 2002	Observed.

Table 3. Mongolia: Structural Benchmarks and Performance Criteria
Under the PRGF Arrangement, 2001–02 (concluded)

	Policy Action	Timing	Status
B.	Structural Benchmarks		
6.	Enforce legal requirement to report semi-annually to the MOFE on all government entities, including EBFs, and prepare semi-annual report for consolidated central government and available data on local governments, including comprehensive data on public employment, with the first semi-annual report to cover data for January–June 2001.	End-September 2001	Partly completed. Given the MOFE's limited technical capacity, the semi-annual reports contained many mistakes. Comprehensive data on public employment are available, but not on a semi-annual basis.
7.	Submit bill to the Parliament to reassign the Corporate Income Tax and the excise tax on alcohol to the central budget starting in 2002 and develop a new equalization transfer model to be used as a guide for the 2002 budget.	End-December 2001	Observed. Taxes were reassigned. The reassignment of spending authority from local governments to line ministries, as envisaged in the PSFML, has eliminated the need for the recommended transfer model.
8.	Adopt joint action program agreed by Treasury and SFSA to monitor budget entities' bank accounts, ensure that payments arrears problems are properly addressed, and establish a time-bound plan for the progressive reduction and elimination of arrears.	End-December 2001	Completed in June 2002.
9.	Adopt legislation requiring all general government entities, including EBFs, to report quarterly to the MOFE, including on the number of staff employed disaggregated by agency.	End-December 2001	Observed.
10.	Implement arrears reduction plan and meet arrears reduction targets set for each debtor agency under the Treasury/SFSA joint action program.	End-June 2002	Not observed. In light of the delay in completing item 8, the implementation of the arrears reduction plan was assessed as of end-December 2002. The target was missed by a small margin (0.02 percent of GDP).
11.	Complete transfer of all central government and Ulaanbaatar City deposits and EBFs to the TSA, close all off-budget accounts held by central government and Ulaanbaatar City, and ensure that at least 75 percent of total central government and Ulaanbaatar City expenditures are routed through the TSA system.	End-June 2002	Not observed. Rephased, more ambitious TSA reforms are under implementation. While some central government accounts remain outside the BOM as indicated under item 3, the TSA has now been extended to local governments; as a result, 75 percent of total general

Table 3. Mongolia: Structural Benchmarks and Performance Criteria
Under the PRGF Arrangement, 2001–02 (concluded)

Policy Action	Timing	Status
12. Adhere to best international standards for the licensing of new banks, including by limiting prospective applicants only to the largest and most reputable institutions from countries with proven records of effective consolidated supervision, and consult with IMF staff about the appropriate interpretation of these standards when considering applications for new bank licenses.	Continuous	government deposits are projected to be consolidated within the TSA at the BOM as of end-August 2003. Ongoing.

Table 4. Mongolia: Structural Benchmarks and Performance Criteria for 2003–04

Structural Benchmarks

1. Issue a ministerial resolution stipulating clear rules for the allocation of excess own-revenues and indicate in semi-annual and annual fiscal reports the adjustments to spending plans due to excess own-revenues by economic classification (end-October 2003).
2. Adopt ministerial regulation that obliges budget managers to make commitments strictly according to their monthly apportionments of budget appropriations and report monthly to the Treasury on commitments entered, and develop Treasury cash plans to prevent the accumulation of arrears (end-October 2003).
3. Tighten enforcement of prudential controls on the banking system by requiring banks to submit internal audit reports to the BOM in accordance with the new supervisor's manual issued in December 2002 (end-October 2003).
4. Fully adopt IAS, including IAS 39, in 2003 and all future BOM financial statements (end-March 2004).

Structural Performance Criteria

5. Secure Parliamentary approval of terms of reference (TOR) for BOM's Supervisory Board in line with the understandings reached with the staff (end-October 2003).
6. Establish Supervisory Board empowered to carry out independent oversight of BOM operations along the lines indicated in the above-mentioned TOR and begin to enforce the amendments to the Central Bank Law approved in June 2003 (end-November 2003).
7. Complete special audits of the BOM's NIR as of end-June and end-September 2003, with a view to ensuring appropriate valuation of gold-related and derivatives transactions and contingent liabilities, including any impairment, guarantees or commitments against gold deposits or other reserve assets (end-November 2003).
8. Increase BOM's provisioning requirements on commercial banks from 25 percent to 50 percent for substandard loans and from 50 percent to 75 percent for doubtful loans (end-March 2004).

Table 5. Mongolia: Prior Actions for the Completion of the First and Second PRGF Reviews
(to be completed by end-August 2003)

1. Secure Parliamentary approval of Medium-Term Budget Framework in line with understandings reached with Fund staff.
2. Secure Parliamentary approval of amendment to the Central Bank Law to prohibit the conduct of quasi-fiscal operations and establish oversight of the Bank's operations by an independent Supervisory Board, and prepare draft terms of reference for the Supervisory Board, in consultation with Fund staff, for consideration by the fall session of Parliament.