



Bank of Mongolia

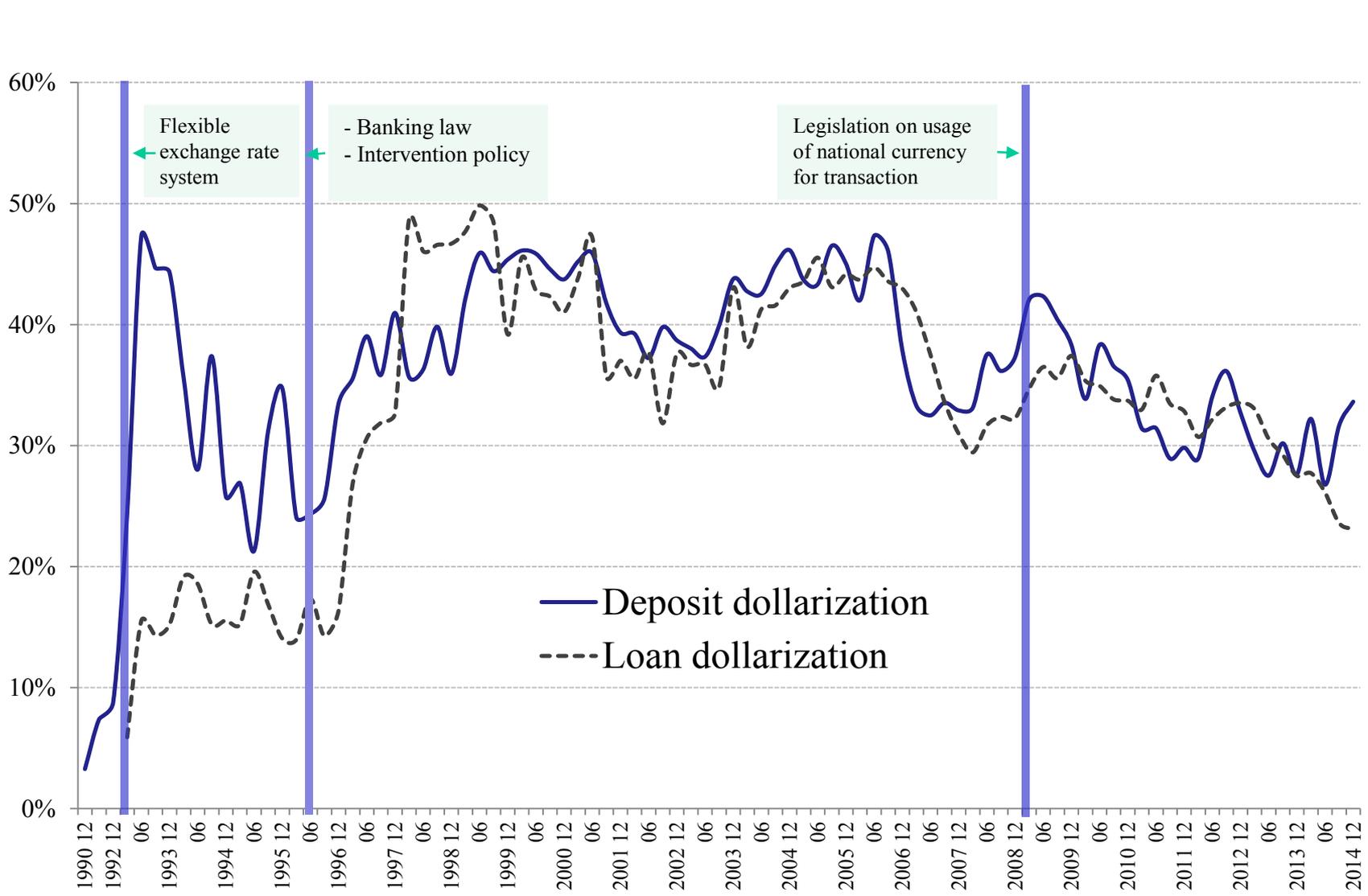
DOLLARIZATION: The case of Mongolia

**Mr. Boldbaatar Dagva
Director General**

February 18, 2015



Deposit and Loan dollarization

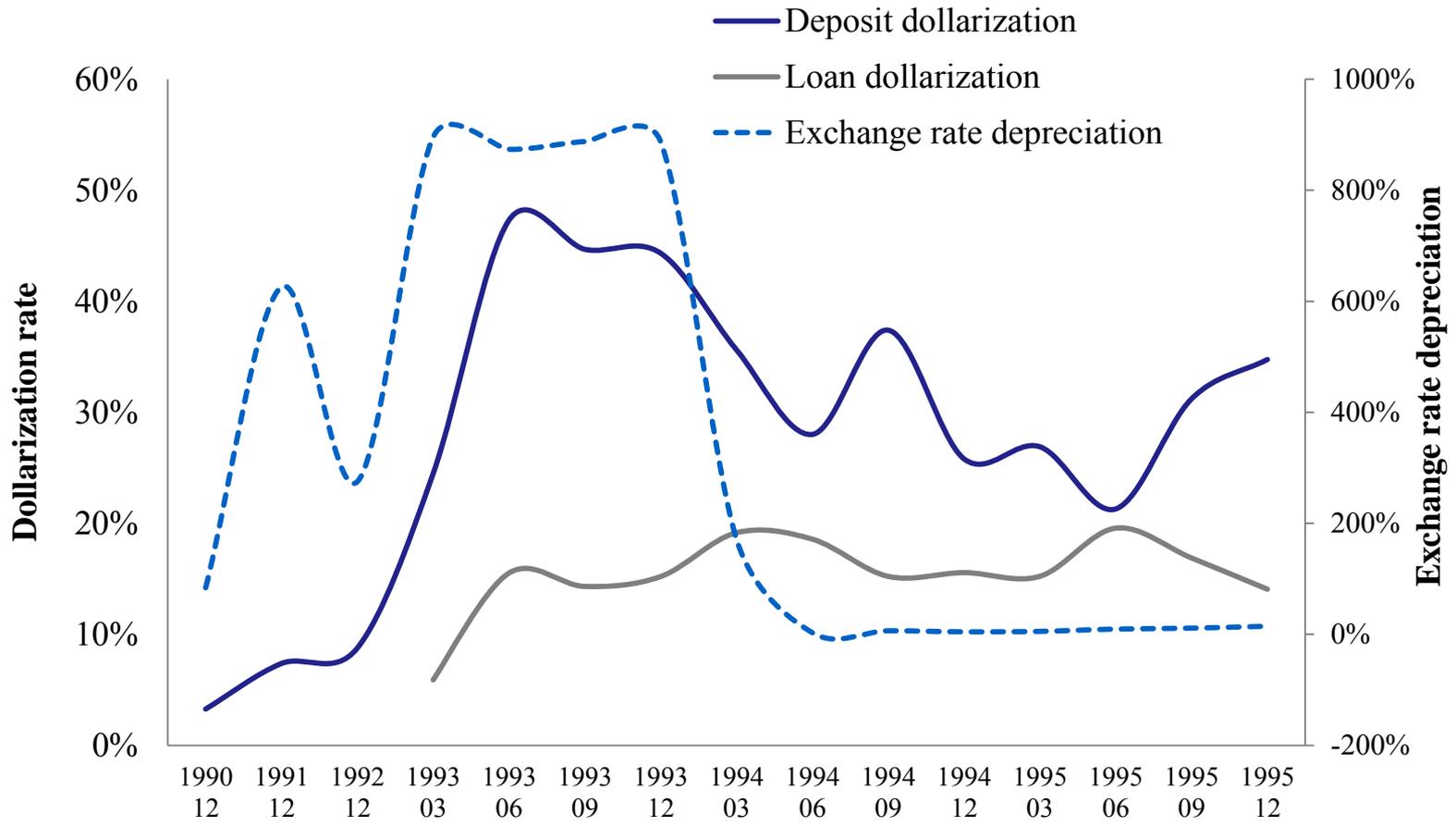


Foreign currency

Source: Bank of Mongolia



Dollarization, 1990-1995



Хувьцаа

Source: Bank of Mongolia



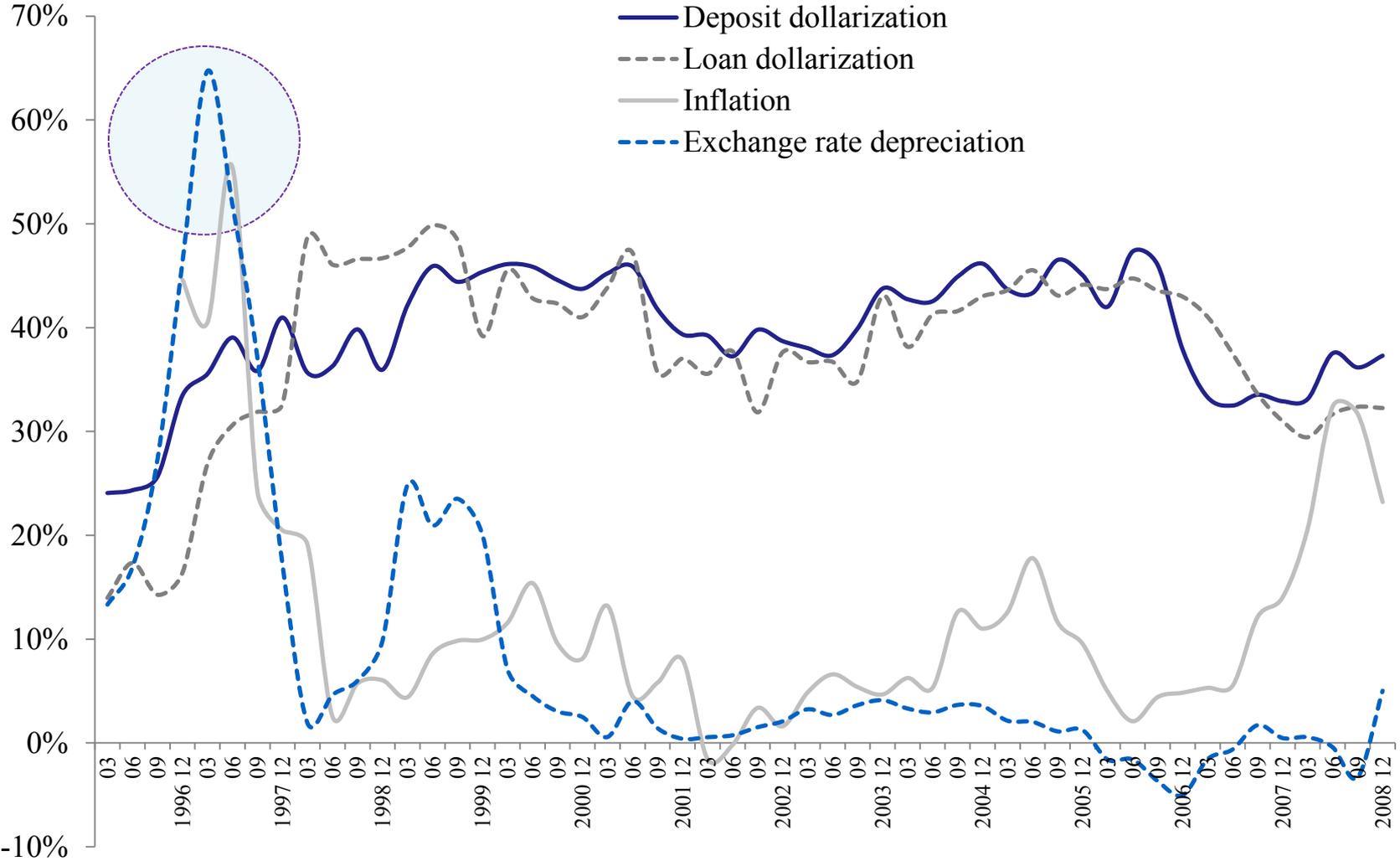
Dollarization, 1990-1995

- ❑ Deposit dollarization as a result of high inflation and depreciation of tögrög after 1993 exchange rate liberalization.
- ❑ Dollarization has been rapidly increasing from 9 per cent in 1992 to 45 per cent in 1993 in period of highest inflation in Mongolia
- ❑ Dollarization started to decline after 1994 as depreciation of tögrög slowed and inflation went down.

Монгол Улсын Хөгжлийн Банк



Dollarization, 1996-2008



Foreign Exchange

Source: Bank of Mongolia

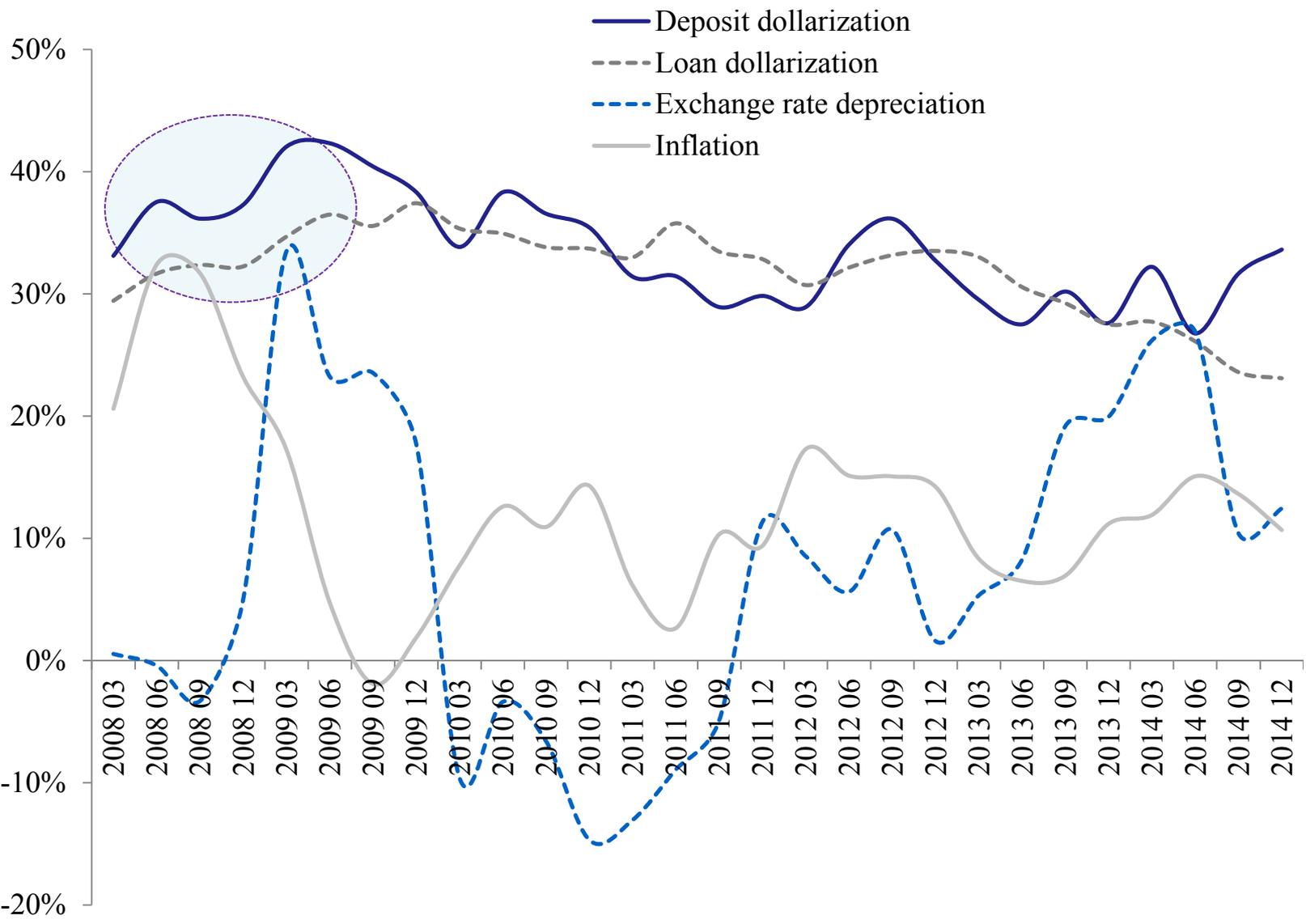


Dollarization, 1996-2008

- ❑ In 1996:
 - New Banking law and Law on Central Bank,
 - Intervention policy relaxed
- ❑ Tögrög depreciated by over 60%, banking crisis of 1994-1999 eroded confidence in banks although inflation went down considerably thus high levels of dollarization persist.
- ❑ Dollarization in Mongolia has remained stable at around 40-50 per cent during the period of 1998 until 2006. It has dropped by 10 percent from 2006 to 2007 and then increased in 2008.



Dollarization, 2009-2014



Foreign Currency

Source: Bank of Mongolia



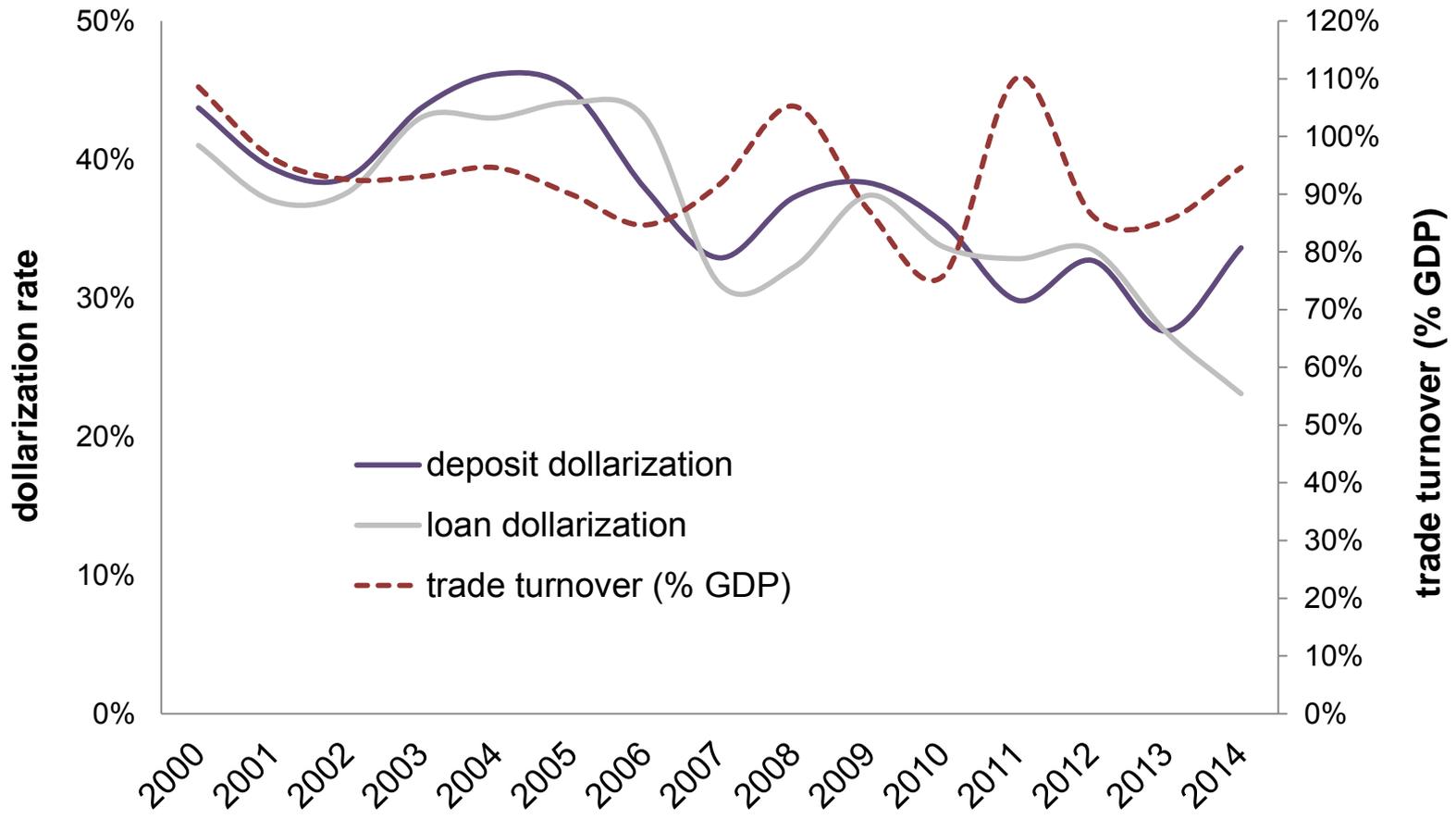
Dollarization, 2009-2014

- ❑ BOP crisis cause level of dollarization to increase from 30 to 40% in 2009. It is caused by macroeconomic instability, high inflation, and depreciation of local currency during the global financial crisis.
- ❑ The law on “The use of national currency for transaction in Mongolia” was adopted in 2009.
- ❑ Since 2010, financial dollarization has declined in Mongolia.
- ❑ Deposit dollarization has increased to 35% while loan dollarization has decreased to 23 per cent in 2014.

ᠮᠣᠩᠭᠣᠯᠢ



Dollarization and trade turnover



Bank of Mongolia

Source: Bank of Mongolia, National Statistical Office of Mongolia



To conclude

- ❑ Dollarization in Mongolia was legacy of hyperinflation, currency and banking crises that amplified by its international dependency of economy
- ❑ Major factors contributed to it:
 - Loss of currency usage: inflation and exchange rate instability
 - Level of financial market development: hedge instruments, FX market efficiency, uncertainty mark-up due to exchange rate instability
 - Economic structure: unavailability of assets, high trade dependency
 - Confidence: banking crises, habits and convenience

Газар, албаны нэр

**Thank you for your
kind attention**



Bank of Mongolia (Central Bank)
Baga toiruu-3, 15160 Ulaanbaatar 46, Mongolia

Tel: +976-11-318300

Fax: +976-11-311471

<http://www.mongolbank.mn>