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Mongolia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

March 17, 2009

The following item is a Letter of Intent of the government of Mongolia, which describes the policies that Mongolia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Mongolia, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

March 17, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

Mongolia has been buffeted by a dramatic shock to its terms of trade, a direct product of the deepening global economic crisis. Growth has stalled and inflation remains far too high.

To tackle these problems, the government of Mongolia has adopted a robust package of economic policies designed to restore health to the country's fiscal finances, allow for a more flexible exchange rate, and address weaknesses in the banking system. We are cognizant of the particular burden this needed adjustment will have on the poor and the government is committed to putting in place a more effective system of social support to protect those Mongolian citizens that are most vulnerable to the coming economic downturn.

The attached Memorandum of Economic Policies describes the economic policies and objectives of the Government of Mongolia for the remainder of 2009 and for 2010, in support of which the government requests a Stand-By Arrangement with the Fund for a period of 18 months, in the amount of SDR 153.3 million (equivalent to US\$224 million or 300 percent of quota). The government has also secured significant support from the international community. The government is considering the possibility of transitioning from this emergency support, once conditions have sufficiently stabilized, to a program supported by the concessional resources of the IMF.

The government believes that the policies described in the memorandum will put Mongolia's economy back on a path of sustainable and equitable growth. Nevertheless, the government stands ready to take all necessary policy measures to ensure the attainment of its economic and social objectives.

During the period of the arrangement, the authorities of Mongolia will maintain the usual close policy dialogue with the Fund. Further, to enhance transparency, the Government has authorized the publication of its Memorandum of Economic Policies.

Sincerely yours,

/s/
S. Bayartsogt
Minister of Finance

/s/
L. Purevdorj
Governor of Bank of Mongolia

Attachments
Memorandum of Economic Policies
Technical Memorandum of Understanding

MEMORANDUM OF ECONOMIC POLICIES

Mongolia's recent economic and social progress is under threat from a dramatic worsening in the prices of key exports, a rapid growth slowdown, and emerging strains in the banking system. The current account and fiscal deficits have widened, international reserves have been drawn down, there are increased pressures on the currency, and the banking system has been weakened. Without rapid policy correction, Mongolia faces severe fiscal and balance of payment problems in the very near future.

The objective of our program is to build a path back to strong, sustainable and equitable growth with low inflation. The core of our program relies upon four key planks: restoring health to government finances; allowing the exchange rate to adjust flexibly to its natural equilibrium while safeguarding international reserves; bolstering confidence in the banking system; and protecting the poor during this period of economic adjustment. The quantitative targets and structural policies underlying our program are summarized in Tables 1 and 2.

I. MACROECONOMIC OUTLOOK

1. **The economic outlook for this year will be challenging.** Growth is projected to slow to 2¾ percent in 2009 reflecting weak exports and falling domestic demand. Inflation should, however, decline rapidly (from 23 percent at end-2008 to 9 percent by end-2009). Prudent policies and a flexible exchange rate should allow the current account deficit to stabilize at around 6 percent of GDP, albeit with a continued decline in exports.
2. **Although we anticipate an economic recovery will begin in early 2010.** Assuming a recovery in global economic conditions and an improvement in mineral prices we expect growth to turn around in 2010, reaching 4¼ percent, with a continued decline in inflation. Given the unusual uncertainty surrounding global economic prospects, there are, however, significant risks to this outlook.

II. FISCAL POLICY

3. **The large drop in our mineral revenues necessitates bold fiscal measures to bring government finances back to a sustainable level.** The government's aim is to constrain the general government deficit to 6 percent of GDP in 2009. This implies around 5 percent of GDP in adjustment in the nonmineral balance, offsetting much of the loss of mineral revenues that we expect for this year. The process of fiscal adjustment will continue in 2010 and beyond; we expect a further reduction of the fiscal deficit to 4 percent of GDP in 2010.

	Key Fiscal Targets (In percent of GDP)	
	2008	2009
Revenue	35.2	30.8
Spending	40.2	36.8
Deficit	-5.0	-6.0
Nonmineral deficit	-15.1	-9.9

4. **The fiscal adjustment is centered primarily around expenditure restraint.** We have taken tough decisions to prioritize government outlays. The biggest savings will come from postponement of domestically financed capital expenditure plans, but also from lower current expenditure such as cuts in purchases of goods and services, a wage and hiring freeze and the elimination of bonuses, and lower untargeted transfers. These measures are estimated to reduce spending by almost 5 percent of GDP. Parliament will pass a revised budget outlining these changes in spending priorities. In light of the uncertainty about the value of mineral wealth the government has decided to postpone plans to distribute its mineral wealth in cash. Instead, it will look at other options to share Mongolia's mineral wealth among the population that will be geared towards reducing poverty and improving essential infrastructure but will ensure these are fully consistent with a steady reduction of the fiscal deficit over the medium term.

5. **We will take action on the revenue side also.** In particular, we have already increased excise taxes on petroleum, beer and tobacco products as well as some increases in customs duties. In total, these measures are expected to permanently increase revenues by around ¼ percent of GDP per year. In addition, the government will use its voting rights in Erdenet, the main copper exporter, to ensure that all taxes and dividends are collected on schedule. In the unlikely event there are delays in the receipt of these revenues, the government is committed to taking additional steps to offset the shortfall to ensure the 2009 deficit target is fully achieved.

6. **The government is acutely aware of the pressure the current global crisis is placing on Mongolia's most vulnerable citizens.** High inflation and a slowing economy will doubtless be most felt by those that are currently living close to or below the poverty line. The government is committed to supporting these groups. To that end, by end-June 2009 we will design, in collaboration with the Asian Development Bank and the World Bank, a comprehensive overhaul of the existing system of social transfer programs. The goal will be to better target these programs towards the very poor and increase the support that poor households receive. The improved transfer system will be incorporated into the 2010 Budget.

7. **Despite the substantial adjustment in the fiscal position, financing the budget will be difficult, particularly in the first half of 2009.** As a stop-gap measure, we have requested that Parliament approve the use of contingency savings held in the Development Fund, excluding certain allowances for wheat and petroleum reserves. In addition, we have approached the donor community and, as a sign of their confidence in our policy intentions, have secured commitments for an additional US\$160 million in budget support over the course of the next two years. We anticipate further pledges from other bilateral donors in the coming months that will secure the financing needed for this year and next. We are committed to take measures to address any donor shortfall and mitigate risks to the program.

8. **To maintain fiscal discipline on a sustained basis we intend to submit to Parliament a draft Fiscal Responsibility Law by end-2009.** The large expansion in fiscal spending during the copper price boom of recent years indicates the need for a stronger institutional framework to guard against painfully procyclical fiscal policy. Our intention is to institute, with advice from Fund staff and the World Bank, a stronger budgetary framework that will guarantee sound fiscal management and constrain this and future governments through a straightforward fiscal rule.

9. **We are in the process of discussing investment agreements for two large mining projects with foreign investors.** We intend to save any prepayments from these agreements to finance any donor financing shortfalls in 2009, for budget financing in 2010 and other potential costs.

III. EXCHANGE RATE AND MONETARY POLICY

10. **The Bank of Mongolia is committed to maintaining a flexible exchange rate to facilitate the needed adjustment to the large terms of trade shock while safeguarding its international reserves.** Consistent with this objective, the Bank of Mongolia intends to build up its international reserves during the course of the program and will maintain a sufficiently tight monetary policy to prevent any undue overshooting of the exchange rate and to keep inflation on a downward path. We recognize that interest rates would need to rise in the coming months to protect the currency. In the event that net international reserves fall by more than US\$30 million during the past 30 days, the authorities will consult with Fund staff on the appropriate policy response.

11. **As part of a managed float exchange rate regime, developing the foreign exchange market will be essential.** The Bank of Mongolia and the government intend to revise the relevant laws to ensure Erdenet—the main copper exporter—begins paying its taxes in local currency. In the meantime, the central bank is working to establish an auction mechanism to allocate foreign exchange, improving price discovery and the transparency of foreign currency sales. All foreign exchange transactions between the central bank and commercial banks will be undertaken through this auction mechanism. Foreign exchange transactions involving all government accounts will be conducted only with the central bank. The central bank will also establish a screen-based system for interbank foreign exchange transactions by end-June 2009 and begin trading foreign currency at the market-determined quotes. Due to recent balance of payments pressures, the central bank has recently begun to ration its foreign exchange sales to critical imports, representing an Article VIII restriction. To the extent the introduction of the auction mechanism gives rise to exchange restrictions or MCPs, we will seek IMF Board approval of these restrictions, as these will be imposed for balance of payments reasons and nondiscriminatory. These restrictions will be lifted by June 1.

12. **The central bank will strengthen and streamline its monetary policy instruments.** The central bank will consolidate the central bank bill issuance at the three-month maturity by end-June 2009. It will also adjust rates on these instruments consistent with monetary policy objectives. To ensure that the central bank's lender of last resort facilities are consistent with its monetary policy and tapped only by illiquid but solvent banks, the central bank will streamline its liquidity facilities.

IV. STRENGTHENING THE BANKING SYSTEM

13. **Restoring the confidence in the banking system is a top priority.** We have already revised and clarified the existing deposit guarantee to cover current accounts, savings accounts, time deposits and interbank deposits. However, in order to prevent abuse and unnecessary fiscal costs, deposits of related persons—as defined in the banking law—and deposits of holders of subordinated debts will be excluded from this guarantee.

14. **We have also prepared a comprehensive plan to strengthen banking supervision and address potential weaknesses in banks:**

- The central bank has asked all banks to increase their risk-weighted capital adequacy ratio (CAR) to 12 percent by end-2009. By end-April 2009 banks will submit capital reinforcement plans under different assumptions about the future deterioration of asset quality.
- The central bank will increase the number of on-site supervisors, complete an updated on-site examination of the five largest banks by June 2009, and intensify off-site monitoring.
- The central bank will identify any problem banks and formulate a supervisory enforcement plan by end-June 2009 to ensure that weaker banks do not threaten financial stability.
- The central bank will strengthen its fit and proper review of shareholders and management and clearly identify beneficial owners in the case of complex bank ownership structures. The government and the central bank will ensure that banks' external auditors are appropriately qualified and experienced.

15. **To further strengthen the legal framework for the banking system, the government, the central bank and the Financial Regulatory Commission will submit a revised Banking Law and other pertinent laws and legislations to the parliament by end-June 2009.** The revisions will include (i) strengthened prompt corrective action clauses, including an increase in penalties for noncompliance; (ii) requiring consolidated supervision; (iii) an improved bank resolution framework that more clearly defines the roles of conservator and liquidator; (iv) legal protection for bank and non-bank supervisors; (v) a

more clear definition of “group of connected parties;” and (vi) reinforced prudential supervision requirements. The government will also improve, with advice from the World Bank, the laws on foreclosure of collateral which overly protect borrowers and impede loan recovery.

V. OTHER POLICIES

16. **Safeguards Assessment.** A safeguards assessment will be completed prior to the first review of the stand-by arrangement. We will authorize the Bank of Mongolia’s external auditors to provide Fund staff with all necessary information, including management letters, information related to correspondent banks, and foreign reserves.

17. **Arrears.** The government and the Bank of Mongolia are committed to resolve its remaining bilateral official arrears by seeking an agreement on arrears clearance with creditors. To that end, the government has already made contacts with creditors to begin the process of resolving these arrears.

Table 1. Mongolia: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

	12/31/2008 Actual	4/30/2009	6/30/2009	9/30/2009	12/31/2009
Performance criteria 1/					
Net international reserves (NIR) of the Bank of Mongolia (BOM) (floor, eop stock, in million US\$) 2/	520	335	315	455	575
Net domestic asset (NDA) of the BOM (ceiling, eop stock, in billion togrog) 3/	-172	-32	14	-195	-332
Net-bank credit to general government (NBCGG) from the banking system (ceiling, cumulative from the beginning of the fiscal year, in billion togrog) 3/	206	105	156	72	81
New nonconcessional external debt maturing in one year or more, contracted or guaranteed by the government or the BOM (ceiling, eop stock, in million US\$).	0	200	200	200	200
New nonconcessional external debt maturing in less than one year, contracted or guaranteed by the government or the BOM (ceiling, eop stock, in million US\$).	0	0	0	0	0
Accumulation of new external payment arrears (ceiling, eop, in million US\$).	...	0	0	0	0
Accumulation of domestic payment arrears (ceiling, eop, in billion togrog).	0	0	0	0	0
Indicative targets					
General government fiscal deficit (ceiling, cumulative since the beginning of fiscal year, in billion togrog).	305	250	325	290	380
Memorandum items:					
Support from bilateral and multilateral donors excluding IMF (cumulative since the beginning of the year, in million US\$)	0	0	30	80	145
Program exchange rate (togrog/U.S. dollar)	1,268	1,560	1,560	1,560	1,560
U.S. dollar per SDR	1.521	1.509	1.509	1.509	1.509
Monetary gold price (U.S. dollar/ounce)	872	880	880	880	880

1/ Evaluated at the programmed exchange rate.

2/ The NIR does not include commercial bank foreign currency deposits and foreign currency current accounts held at the Bank of Mongolia. The floor on NIR will be adjusted upward (downward) by the amount of support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level. The floor will also be adjusted upward by the amount of nonconcessional borrowing disbursed during the program period.

3/ The ceiling on NDA and NBCGG, respectively, will be adjusted downward (upward) by the amount of support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level. The ceilings will also be adjusted downward by the amount of nonconcessional debt disbursed during the program period.

Table 2. Mongolia: Prior Actions (PA) and Structural Benchmarks (SB)

Actions	Type	Date
The passage by the parliament of the 2009 budget amendment consistent with program targets	PA	
Appointment of a reputable external auditor to make diagnostic assessment on the portfolio and off-balance sheet transactions of Anod Bank.	PA	
Revision and clarification of blanket deposit guarantee by including current accounts as well as savings accounts, time deposits and interbank deposits; and by excluding all deposits of related persons to the bank as defined in the banking law, and deposits of holders of subordinated debt.	PA	
Establishment of a foreign currency auction mechanism at the Bank of Mongolia.	SB	4/1/2009
Revising relevant laws to require Erdenet to pay taxes in togrog.	SB	6/30/2009
Establishment of screen-based system for inter-bank foreign exchange transactions.	SB	6/30/2009
Announcement of a resolution plan for Anod Bank a based on the diagnostic assessment of the external auditor.	SB	6/30/2009
A comprehensive review of transfer programs resulting in a revision of the relevant laws to streamline transfer programs and safeguard the social safety.	SB	6/30/2009
Submission to the parliament of a revised banking law and other pertinent laws and legislations that include: (i) strengthened prompt corrective action clauses including an increase in penalties for noncompliance; (ii) requiring consolidated supervision; (iii) an improved bank resolution framework that more clearly defines the roles of the conservator and liquidator; (iv) legal protection for bank and non-bank supervisors; (v) a more clear definition of "group of connected parties;" and (vi) reinforced prudential supervision requirements.	SB	6/30/2009
The submission to parliament of Fiscal Responsibility Law consistent with recommendations of Fund technical assistance.	SB	12/31/2009

MONGOLIA—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. During the period of the arrangement, the authorities of Mongolia will maintain the usual close policy dialogue with the Fund. In this regard, the authorities are committed to take any additional measures that may be needed to ensure that the program remains on track. They will consult with the IMF on the adoption of measures, and in advance of revisions to the policies contained in the MEP, in accordance with the IMF's policies on such consultation. Further, the Government of Mongolia and the Bank of Mongolia will provide the Fund with such information as it requests on policy implementation and achievement of the program objectives.

2. The program will be monitored through quantitative performance criteria, indicative targets, structural benchmarks, and quarterly reviews (Table 1). This memorandum sets out the definitions for quantitative performance criteria and indicative targets under which Mongolia's performance under the program supported under a Stand-by Arrangement (SBA) will be assessed. Monitoring procedures and reporting requirements are also specified. The first review will take place on or after June 15, 2009, and the second review on or after September 15, 2009.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

3. Performance criteria for end-April 2009, end-June 2009, end-September 2009, end-December 2009, end March 2010, and end June-2010 have been established with respect to:

- floors on the level of net international reserves of the Bank of Mongolia (BOM);
- ceilings on the level of net domestic assets of the BOM;
- ceilings on the level of net bank credit to general government;
- ceilings on the contracting and guaranteeing by the central government or the BOM of new medium- and long-term external debt; and
- ceilings on the contracting or guaranteeing by the central government or the BOM of new short-term external debt.

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

- ceilings on accumulation of new external payment arrears of the central government and the BOM; and

- ceiling on accumulation of domestic payment arrears of the central government.
5. Indicative targets for end-April 2009, end-June 2009, end-September 2009, end-December 2009, end-March 2010, end-June 2010 have been established with respect to:
- ceilings on the general government fiscal deficit;

II. INSTITUTIONAL DEFINITIONS

6. The general government includes all units of budgetary central government, social security funds, extrabudgetary funds, and local governments.
7. The domestic banking system is defined as the BOM, the existing and newly licensed commercial banks incorporated in Mongolia and their branches.

III. MONETARY AGGREGATES

8. **Valuation.** Foreign currency-denominated accounts will be valued in togrogs at the program exchange rate between the togrog and the U.S. dollar Tog 1,560 per U.S. dollar. Foreign currency accounts denominated in currencies other than the U.S. dollar, excluding SDRs, will first be valued in U.S. dollars at actual end-of-period exchange rates used by the BOM to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of SDR 1=US\$1.51. Monetary gold will be valued at US\$880 per ounce.

A. Reserve Money

9. Reserve money consists of currency issued by the BOM (excluding BOM holdings of currency) and commercial banks' deposits held with the BOM.

B. Net International Reserves of the BOM

10. A floor applies to the level of net international reserves (NIR) of the BOM. The floor on NIR will be adjusted upward (downward) by the amount of support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level. The floor on NIR will also be adjusted upward by the amount of nonconcessional borrowing disbursed during the program period.
11. NIR will be calculated as gross international reserves less international reserve liabilities. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the BOM shall be valued at program exchange rates and gold price as described on paragraph 8 above.

12. **Gross international reserves** of the BOM are defined as the sum of

- monetary gold holdings of the BOM;
- holdings of SDRs;
- Mongolia's reserve position in the IMF; and
- foreign currency assets in convertible currencies held abroad that are under the direct and effective control of the BOM and readily available for intervention in the foreign exchange market or the direct financing of balance of payments imbalances and are of investment grade or held with an investment-grade institution.

Excluded from the definition of gross reserves are commercial bank foreign currency deposits held at the Bank of Mongolia, commercial bank foreign currency current accounts held at the Bank of Mongolia, any foreign currency claims on residents, capital subscriptions in international institutions, assets in nonconvertible currencies, and gross reserves that are in any way encumbered or pledged, including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities.

13. **International reserve liabilities** of the BOM are defined as the sum of

- all outstanding liabilities of Mongolia to the IMF; and
- any foreign convertible currency liabilities of the BOM to nonresidents with an original maturity of up to and including one year.

C. Net Domestic Assets of the BOM

14. A ceiling applies to the level of net domestic assets (NDA) of the BOM. The ceiling on NDA will be adjusted downward (upward) by the amount of support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level. The ceiling on NDA will be adjusted downward by the amount of nonconcessional debt disbursed during the program period.

15. NDA will be calculated as the difference between reserve money and the sum of NIR and other net foreign assets (ONFA) of the BOM.

16. ONFA is defined as the sum of (i) BOM's monetary gold pledged as collateral for external loans to domestic private companies and (ii) other net foreign assets of the BOM, including the difference between accrued interest receivables on gross international reserves of the BOM and accrued interest payables on international reserve liabilities of the BOM and deposits of international financial institutions.

D. Net Bank Credit to the General Government

17. A ceiling applies to the net bank credit flows to the general government (NBCGG) measured cumulatively from the beginning of the year. The ceiling on NBCGG will be adjusted downward (upward) by the amount of support from bilateral and multilateral donors (excluding IMF) in excess (short) of the programmed level. The ceiling will also be adjusted downward by the amount of nonconcessional debt disbursed during the program period.

18. **NBCGG** is defined as the sum of (i) net borrowing from the BOM (ways and means advances, loans, holdings of restructuring bonds, holdings of treasury bills and other government bonds, and the government liabilities to the IMF minus deposits) and (ii) net borrowing from commercial banks (loans, advances, holdings of restructuring bonds, and holdings of treasury bills and other government bonds minus deposits).

IV. FISCAL AGGREGATES

A. Fiscal Deficit

19. An indicative ceiling target applies to the general government fiscal deficit measured cumulatively from the beginning of the year.

20. Fiscal deficit is defined as total general government revenue and grants minus total general government expenditure and net-lending.

V. DOMESTIC PAYMENT ARREARS

21. A continuous performance criterion applies to the nonaccumulation of domestic payment arrears by the central government. Domestic payments are in arrears when the payment is not made on the due date, as specified in the regulation.

VI. EXTERNAL DEBT

A. Medium- and Long-Term External Debt

22. A ceiling applies to the contracting and guaranteeing by the central government, the BOM, or other agencies on behalf of the central government of new debt with nonresidents with original maturities of over one year. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received.

23. The definition of debt, for the purposes of the program, is set out in Executive Board Decision No. 12274, Point 9, as revised on August 24, 2000 (see Annex I).

24. Excluded from the ceiling are (i) the use of Fund resources; (ii) lending from the World Bank, the Asian Development Bank, and the International Fund for Agricultural Development; (iii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt; (iv) concessional debts; (vi) any togrog-denominated treasury bill and government bond holdings by nonresidents.

25. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the central government, the BOM, or other agencies on behalf of the central government to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the central government, the BOM, or other agencies on behalf of the central government to finance a shortfall incurred by the loan recipient.

26. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such as both components constitute an integrated financing package with a combined grant element equal to at least 35 percent.

B. Short-Term External Debt

27. A ceiling applies to the contracting and guaranteeing by the central government, the BOM, or other agencies on behalf of the central government of new debt with nonresidents with original maturities of one year or less. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received.

28. For program purposes, the definition of debt is set out in Executive Board Decision No. 12274, Point 9, as revised on August 24, 2000 (see Annex I).

29. Excluded from the ceiling are (i) debts classified as international reserve liabilities of the BOM; (ii) debts to restructure, refinance, or prepay existing debts; (iii) tolog-denominated treasury bills, government bonds, and BOM bills held by nonresidents; and (iv) normal import financing. A financing arrangement for imports is considered to be “normal” when the credit is self-liquidating.

VII. EXTERNAL PAYMENT ARREARS

30. A continuous performance criterion applies to the nonaccumulation of external payments arrears on external debt contracted or guaranteed by the general government or the BOM. External payments arrears consist of external debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements. However, overdue debt and debt service obligations that are in dispute will not be considered as external payments arrears for the purposes of program monitoring.

VIII. PERFORMANCE CRITERION OF THE MODIFICATION OF MULTIPLE CURRENCY PRACTICES

31. The performance criterion on the introduction or modification of multiple currency practices (MCP) will exclude any modifications as part of the introduction of the foreign exchange auction system, in line with staff advice, that may give rise to a MCP.

IX. DATA PROVISION

32. The authorities have committed to using the best available data, so that any subsequent data revisions will not lead to a breach of a performance criterion. All revisions to data will be promptly reported to the Fund’s Resident Representative. The likelihood of significant data changes, including definitional changes, will be communicated to Fund staff as soon as the risk becomes apparent to the authorities.

33. Data required to monitor performance under the program, including those related to performance criteria and indicative targets, will be provided electronically or in hard copy to the Fund’s Resident Representative by the 20th day of each month, unless otherwise indicated. The data to be reported are listed below, and the reporting responsibilities are indicated in parentheses.

A. Monetary Data (BOM)

- The monetary survey, the balance sheet of the BOM, and the consolidated balance sheet of the commercial banks. Data will be provided on a monthly basis, with the

exception of the balance sheet of the BOM, which will be provided on a weekly basis within five working days of the end of the respective week.

- Net international reserves and interventions of the BOM in the foreign exchange market on daily basis.
- Interest rates and volume on standing facilities and market operations on a weekly basis within five working days of the end of the respective week.
- A detailed breakdown of net credit to government from the BOM and the commercial banks.
- Stock of monetary gold in both thousands of fine troy ounces and U.S. dollars. If the BOM engages in monetary gold transactions or employs any other accounting rate, directly or implicitly, for valuing gold assets, this information will be reported to the Fund. Any increase in monetary gold through purchases from domestic sources and refining of nonmonetary gold held or purchased by the BOM will also be reported (both prices and volumes). Any liabilities that are guaranteed or otherwise backed by gold will be reported to the Fund.
- A detailed breakdown of “other items net” for both the BOM and the commercial banks, including, inter alia, all valuation changes in net international reserves and net other foreign assets arising from exchange rate changes and/or revaluation of gold.
- Outstanding balances of all deposit accounts of the general government in commercial banks, including those of the extrabudgetary funds.
- Outstanding balances of any new deposit accounts of the general government opened in addition to the existing ones for grants and loans received from multilateral or bilateral donors, including associated counterpart funds.
- A bank-by-bank list of required reserves and actual reserves.
- Results of each central bank bills auction within five working days of each auction, including amount of bills offered, amount demanded, amount sold to each bank, announced rates, and cut-off rates.

B. Fiscal Data (Ministry of Finance (MOF))

- Consolidated accounts of the central, local, and general government, including detailed data on tax, nontax, and capital revenues, current and capital expenditures, net lending, and financing. Financing components should be separated into foreign sources (cash, project, and program loans) and domestic sources (bank and nonbank).

- Classified transactions of all social insurance funds.
- Domestic payment arrears of the general government.
- Noninterest outstanding payables by each subsector of the general government, including the social security funds, with a detailed breakdown by major categories and remaining maturity.
- Results of each treasury bills auction within five working days of each auction, including amount of bills offered, amount demanded, amount sold to each bank and nonbanks, and the average yield in percent per month.

C. External Sector Data (BOM and MOF)

- Complete list of new contracts for the execution of public investment projects, which have been signed or are under negotiation with foreign or domestic entities, including details on the amounts, terms, and conditions of current or future debt or nondebt obligations arising from these contracts.
- Outstanding stock, disbursements, amortization, and interest payments of short-term external debt contracted or guaranteed by the government or the BOM by creditor in original currency and U.S. dollars.
- Outstanding, disbursements, amortization, and interest payments of medium- and long-term external debt contracted or guaranteed by the government or the BOM by creditor in original currency and U.S. dollars.
- Daily midpoint exchange rates of the togrog against the U.S. dollar, including the official, interbank, and parallel market exchange rates (BOM).
- Arrears on the external debt contracted or guaranteed by the government or the BOM by creditor in original currency and U.S. dollars.

D. Other Data (National Statistical Office)

- The monthly consumer price index and a detailed breakdown by major categories of goods and services included in the consumer basket.
- The NSO's monthly statistical bulletin, including monthly export and import data.

ANNEX I. GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT

Excerpt from Executive Board Decision No. 12274, as revised on August 24, 2000

9. (a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.