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Press Release:
[IMF Executive Board
Completes First
Review Under Stand-
By Arrangement with
Mongolia and
Approves US\\$39.4
Million Disbursement](#)
June 24 , 2009

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Mongolia: Letter of Intent and Technical Memorandum of
Understanding

June 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.

June 17, 2009

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

Dear Mr. Strauss-Kahn:

Mongolia has benefited greatly from the sound economic policies that the government has pursued, supported by the Stand-By Arrangement with the International Monetary Fund. Market conditions have stabilized and we are rebuilding international reserves while maintaining a flexible approach to exchange rate management. Our goals continue to be to restore health to public finances; maintain a fiscal deficit of under 6 percent of GDP this year; reform the supervisory and regulatory framework as part of ongoing efforts to monitor and support financial system stability; and protect the poor during this period of adjustment.

We are committed to implementing the program described in the Memorandum of Economic Policies (MEP). The thrust of our policy agenda remains as described in the MEP. We have made, however, a minor amendment to the Technical Memorandum of Understanding to define more fully domestic arrears for program monitoring purposes.

Given the success to date of the program, we request the completion of the first review in light of the observance of the end-April program targets.

The program will continue to be monitored through quantitative performance criteria and indicative targets, as well as structural benchmarks and quarterly reviews (see attached Tables 1 and 2). The second review will take place on or after September 15, 2009 and the third review will take place on or after December 15, 2009. The government is considering the possibility of transitioning from this emergency support, once conditions have sufficiently stabilized, to a program supported by concessional resources of the IMF.

We are considering entering into a bilateral swap arrangement with China. However, we will not sign any such agreement until Fund staff can verify that its terms are consistent with Article VIII obligations. Also, we will ensure that any drawings under the swap arrangement are consistent with program ceilings on nonconcessional borrowing.

We intend to maintain a close policy dialogue with the Fund. We also stand ready to take additional measures, as appropriate, to ensure the achievement of the government's social and economic objectives under the Stand-By Arrangement. We will consult with the Fund on the adoption of measures, and in advance of revisions to the policies contained in the MEP,

in accordance with the Fund's policies on such consultation. Further, we will provide the Fund with such information as it may request on policy implementation an achievement of the program objectives.

Sincerely yours,

/s/
S. Bayartsogt
Minister of Finance

/s/
L. Purevdorj
Governor of Bank of Mongolia

Attachment: Revised Technical Memorandum of Understanding

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
	IMF CR//09/130	Revised 4/	IMF CR//09/130	Outcome	IMF CR//09/130	IMF CR//09/130	IMF CR//09/130
Performance criteria 1/							
Net international reserves (NIR) of the Bank of Mongolia (BOM) (floor, eop stock, in million US\$) 2/	520	495	335	441	315	455	575
Net domestic asset (NDA) of the BOM (ceiling, eop stock, in billion togrog) 3/	-172	-171	-32	-287	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	130	105	82	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	0	200	0	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	0	0
Accumulation of new external payment arrears (ceiling, eop, in million US\$).	0	0	0	0	0
Accumulation of domestic payment arrears (ceiling, eop, in billion togrog).	0	0	0	...	0	0	0
Indicative targets							
General government fiscal deficit (ceiling, cumulative since the beginning of fiscal year, in billion togrog).	305	296	250	144	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	0	0	30	80	145
Program exchange rate (togrog/U.S. dollar)	1,268		1,560		1,560	1,560	1,560
Program U.S. dollar per SDR	1.521		1.509		1.509	1.509	1.509
Program 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.

4/ Incorporates revisions of fiscal and monetary data for end-2008, reclassification of government deposits as of December 2008, and changes in NIR presentation consistent with the recommendation of the IMF Safeguard Assessment.

Table 2. Mongolia: Structural Benchmarks

Actions	Date
Revising relevant laws to require Erdenet to pay taxes in togrog.	6/30/2009
Establishment of screen-based system for inter-bank foreign exchange transactions.	6/30/2009
Announcement of a resolution plan for Anod Bank based on the diagnostic assessment of the external auditor.	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.	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 nonbank supervisors; (v) a more clear definition of "group of connected parties;" and (vi) reinforced prudential supervision requirements.	6/30/2009
The submission to parliament of Fiscal Responsibility Law consistent with recommendations of Fund technical assistance.	12/31/2009

MONGOLIA—TECHNICAL MEMORANDUM OF UNDERSTANDING

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

1. 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;
- ceilings on the contracting or guaranteeing by the central government or the BOM of new short-term external debt.
- ceiling on accumulation of domestic payment arrears of the central government.

2. 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.

3. Indicative targets 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:

- ceilings on the general government fiscal deficit.

II. INSTITUTIONAL DEFINITIONS

4. The general government includes all units of budgetary central government, social security funds, extrabudgetary funds, and local governments.

5. 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

6. **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\$1.509. Monetary gold will be valued at US\$880 per ounce.

A. Reserve Money

7. 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

8. 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.

9. 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 6 above.

10. **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.

11. **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

12. 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.

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

14. 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

15. 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.

16. **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

17. An indicative ceiling target applies to the general government fiscal deficit measured cumulatively from the beginning of the year.
18. Fiscal deficit is defined as total general government revenue and grants minus total general government expenditure and net lending.

V. DOMESTIC PAYMENT ARREARS

19. Domestic payment arrears for the purpose of the program are measured on the basis of the stock of government payables and liabilities that exceed its due-for-payment date by more than 60 days. If this stock is equal or smaller than Tog 3.5 billion, the program considers domestic arrear accumulation to be zero. If this stock exceeds Tog 3.5 billion, the difference is considered to constitute domestic arrear accumulation. The program aims for zero domestic arrear accumulation under this definition. Overdue claims that are arrears under the definition of the performance criteria subject to litigation shall be excluded from the application of the performance criteria.

VI. EXTERNAL DEBT

A. Medium- and Long-Term External Debt

20. 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 one year or more. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. However, with respect to swap arrangements with People's Bank of China, only amounts actually drawn under such arrangement would count toward the ceiling.
21. 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).
22. 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; (v) any togrog-denominated treasury bill and government bond holdings by nonresidents.
23. 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.

24. 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

25. 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 less than one year. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received.

26. 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).

27. 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) togrog-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

28. 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

29. The performance criterion on the introduction or modification of 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

30. 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.

31. 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 (NSO))

- 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 1. 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.