

# Mongolian Economy

JUNE 2024



Special issue dedicated to the 100th anniversary of the establishment and development of the modern banking system in Mongolia

## A CENTURY OF STRENGTHENING TOGETHER



On the occasion of the 100th anniversary of the establishment and development of modern banking system in Mongolia, three commemorative coins were issued: "The decree of Kublai Khan," "Two Dragons," and "Mongolbank - 100 Years."





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# A century of strengthening together



**B.LKHAGVASUREN**  
*Governor of the Bank of Mongolia*

Mongolia's modern banking sector is celebrating its 100th anniversary these days, marking a century of achievements and success. On June 2, 1924, the Bank of Commerce and Industry of Mongolia, jointly owned by Mongolia and the Soviet Union, began operations, establishing the foundation of the banking sector and the Bank of Mongolia.

Today, Mongolia's banking sector meets international standards in service and product quality, leading in services and technology domestically, providing continuous financial intermediation, expanding foreign cooperation, and developing into a key pillar of economic and social development. The past century was the 'A century of strengthening together,' where the banking sector and economic development supported and expanded each other.

I am pleased to mention that positive changes are taking place in Mongolia's economy, banking, and financial sectors as we approach a threshold of a hundred years. In the first quarter of 2024, Mongolia's economy grew by 7.8 percent, and inflation successfully decreased to the Bank of Mongolia's target level. For the first time, foreign exchange reserves exceeded five billion US

dollars, reaching a historic high. With increased foreign currency reserves, the exchange rate of the MNT against foreign currencies is stable. Additionally, rising export income has made the current account profitable for the first time in 16 years, which created a condition to improve the balance of payments.

The banking sector has supported economic growth and successfully fulfilled its role in financial intermediation. Banking reform continued with the transformation of banks into joint-stock companies and improvements to the anti-money laundering and counter-terrorist financing system in line with global standards. Active efforts in international cooperation have enhanced correspondent bank relations and streamlined the processing of foreign payments.

The banking and financial sector has significantly contributed to Mongolia's recent successful economic development. We wish the management and staff of the Bank of Mongolia, as well as all commercial banks, a very happy 100th anniversary of the establishment of the banking sector in Mongolia.

May Mongolia's banking sector continue to thrive for centuries to come! ■

## Main article

# Bank of Mongolia - Guardian of the financial system

**By 1994, the Bank of Mongolia assumed full regulatory oversight of banks, initiating measures to stabilize inflation rates**



**M**ongolia's modern banking and financial system is celebrating its centenary. For thousands of dedicated professionals who put in effort in the sector it's a moment to be proud of their success, inform the public of their achievements, assess the past, shape the present, and chart the future.

Since the establishment of the Mongolian and then Soviet Union joint-stock Bank of Trade and Industry back in June 2, 1924, the banking and financial sector celebrates a historic milestone amidst the sunlit summer season. Accounting for approximately 95% of Mongolia's financial sector, the banking industry has been pivotal in fostering long-term economic growth of the nation. The Bank of Mongolia has played a crucial role in steering monetary policy, stabilizing inflation, reforming banking laws, and ensuring robust supervision and inspections—all aimed at maintaining the stability of the national currency. With a century of successful stewardship, the Bank of Mongolia continues to uphold these responsibilities.

The journey of Mongolia's banking and financial sector over the past century has not been easy. It is marked by both challenges and milestones. In its early years, spanning nearly a decade, the sector struggled to establish a coherent money and credit policy and forge a solid financial framework. By 1933, a pivotal shift occurred as loans were meticulously structured with collateral, specific repayment terms, and credit amounts assessed through financial statement analysis. In other words, this was a foundational step in managing money supply growth. From 1940 onwards, the Bank of Mongolia emerged as the cornerstone of Mongolia's financial landscape, consolidating services such as loans, payments, and cash management.

A significant turning point came in 1954 when the Government of the Mongolian People's Republic assumed full control of the Bank of Mongolia from the Soviet Union when it transferred its shares to Mongolia, enabling comprehensive alignment of monetary and credit policies with national priorities. ►



- Until 1991, monetary policy was guided by allocating financial resources to state-approved economic measures under the State Planning Commission, albeit without specific banking laws, leading to regulation through rules and guidelines.

## Healthy banking system

April 4, 1991, marked a significant milestone with the approval of the Banking Law, restructuring Mongolia's financial sector into a two-tier system comprising the Central Bank, legally known as the Bank of Mongolia, and commercial banks. The Bank of Mongolia was tasked with executing national monetary policy, managing currency reserves, and safeguarding customer interests, while commercial banks focused on delivering financial services to individuals, enterprises, and organizations.

By mid-1993, pivotal reforms further reshaped the banking sector. Existing commercial banks were registered under the new framework, and new banks were established. The introduction of an interbank clearing house and a unified credit database streamlined financial operations. The sector underwent substantial cleanup and restructuring efforts, addressing bankruptcies and consolidating banks like Монгол хоршоо, Төв Ази, Монгол даатгал, Хөрөнгө оруулалт, технологи, шинэчлэлийн банк, Бизнес банк, Их зам банк, Эдийн тэнгэр банк and Экспорт, импортын банк. These reforms ushered in a new era of positive transformation and stability.

During 1992-1995, Mongolia embarked on a strategic monetary policy that combined administrative and economic measures. By 1994, the Bank of Mongolia assumed full regulatory oversight of banks, initiating measures to stabilize inflation rates. Concurrently, the transition of Mongolia's currency, the MNT, to a free-floating exchange rate system marked a pivotal shift toward a more dynamic economy and open market relations. To enhance financial agility, an electronic-based interbank clearing settlement system was introduced, facilitating quicker interbank transactions and bolstering the efficiency of monetary operations.

However, several Mongolian banks faced dire financial straits. In 1999, the Bank of Mongolia, under the directive of the Governor, initiated the

**Banking sector's shareholder base increased to over 70,000 individuals**

liquidation of XOTШ Bank due to its severe solvency issues. With approximately 40,000 depositors, over 8,000 customers, and 41 branches, XOTШ Bank was a large bank at the time. Nine years later, Anod Bank faced similar challenges and entered receivership in 2008. These events prompted legislative action, resulting in the approval of the Law of Mongolia on Issuing a guarantee on cash deposits of banks in 2008 and the Law of Mongolia on Immovable Property Pledge in 2009. These laws bolstered the legal framework and regulatory oversight of Mongolia's banking sector, laying a solid foundation for enhanced control and stability.

Amidst these reforms, Mongolia's banking sector expanded and evolved in tandem with global developments, navigating challenges to emerge stronger and more resilient.

## Improved governance and publicly traded banks

In a landmark move, Parliament approved amendments to the Banking Law in 2021, paving the way for commercial banks to transition into publicly listed companies. This transformation not only opened up commercial banks to public ownership but also laid the foundation for enhanced governance practices. Leading institutions like KHAN Bank, Trade and Development Bank, Golomt Bank, XacBank, and State Bank made history in 2023 by offering their shares to the public for the first time, officially becoming open joint-stock companies. This initiative significantly expanded the banking sector's shareholder base to over 70,000 individuals, generating a total of 473 billion MNT from the domestic market and bolstering public oversight over these financial institutions.

The journey of Mongolia's banking and financial sector, alongside its impactful policies and initiatives, has been pivotal in the nation's development. A century ago, Mongolia lacked formal banking institutions, leaving foreign money-changing firms to dominate financial transactions, causing disruption in monetary flows. In response, the banks emerged as guardians of the nation's finances. Today, Mongolia keeps pace with global progress and prosperity, thanks to its banking sector which has proudly fulfilled its duty for a century. ■

## Historic highlights



# THE 100 YEAR HISTORY OF THE BANKING SYSTEM

**1924**  
JUNE 2

A joint Mongolian-Soviet Trade and Industry Bank was established. Mongolia now had an official bank, a national currency, a payment and credit system, and private savings.

**1954**  
APRIL 12

The Soviet Union transferred its shares to Mongolia, and the Bank of Mongolia was taken over by the Government of the Mongolian People's Republic. The Bank oversaw cash flow and lending according to a strict government plan, served as a financing center, and monitored MNT flow.

**1991**  
APRIL 4

The Law of Mongolia on Banking was enacted, dividing the banking system into the Central Bank and commercial banks, resulting in a two-tier banking system. The Bank of Mongolia was authorized to implement state monetary policy within Mongolia, with the main objective of ensuring the stability of the national currency, the tugrik. Its activities include implementing monetary policy, controlling currency issuance and state currency reserves, and protecting consumer rights. Commercial banks conduct business activities such as offering financial services to individuals, businesses, and organizations.

**1260:** Kublai Khan, Emperor of the Yuan Dynasty, issued the first banknotes backed by gold and silver

**1924:** The Mongolian-Soviet joint venture Trade and Industry Bank (Bank of Mongolia) was established

**1925:** The national currency tugrik was created, and 1, 2, 5, 10, 25, 50, and 100-denomination notes were put into circulation

**1932:** The first long-term loans and collateralization of loans was started

**1933:** The first loans were granted to private enterprises

**1934:** The first loans were granted to merchants and herders

**1940:** The BoM began acting as the Government's fiscal intermediary

**1941:** Long-term loans of 2-4 years were issued

**1942:** Local branches of the BOM were established in provincial centers

**1954:** The BoM was taken over by the Government of the Mongolian People's Republic after the Soviet Union transferred its shares to Mongolia.

**1956:** Loans began to be considered and classified according to their economic content and purpose

**1958:** Received the right to enter into currency agreements with socialist countries

**1963:** Mongolia transitioned to a multi-party payment and settlement system

**1973:** First use of electronic machines and mechanization of bank transaction receipts

**1978:** Teletype was first introduced, enabling direct connections with foreign banks







**1986:** Limits were set on the exit and entry of national currency, and the possibility of exchanging international currency for national currency was established

**1989:** The Cooperation Commission was established to expand cooperation with international banks

**1990:** The base exchange rate of the tugrik to the US dollar was established.

**1991:** Two-tier banking system was established.

**1992:** Inter-bank clearing system was introduced.

**1993:** Transition from a fixed exchange rate regime to a free-floating system.

**1995:** "Law on Deposits, Loans, and Banking Transactions" was approved.

**1996:** Connected to the SWIFT international settlement network, enabling instant transfer of foreign payments

and ensuring the reliability of payments with foreign countries.

**1999:** Payment card services were introduced by joining the international "Master" and "VISA" card networks.

**2001:** Cash withdrawal services using ATM machines were introduced.

**2002:** Internet banking services were introduced for the first time.

**2005:** National Electronic Transaction Center was established.

**2006:** Anti-Money Laundering and Anti-Terrorist Financing Act was passed.

**2007:** The transition to an inflation-targeting monetary policy approach began.

**2008:** The central bank reduced its participation in the foreign exchange market, and the MNT exchange rate became more flexible.

**2009:** Foreign exchange auctions were introduced, and Central Bank intervention was conducted on an auction basis.

**2010:** Integrated interbank payment card network was established.

**2011:** The minimum share capital of the bank was set at 16 billion MNT.

**2012:** The national brand "₮ card" was released.

**2013:** The Law on Bank Deposit Insurance was approved.

**2014:** The low-volume settlement system transitioned to 24/7 real-time operations.

**2015:** The minimum share capital of the bank was re-established at 50 billion MNT.

**2016:** Inter-bank internet trading, "eCommerce," was introduced.

**2017:** The Law on the National Payment System was enacted.

**2019:** National banknotes (50, 100, 500, 1000, 5000, 10000, and 20000 MNT) were updated with improved security features and innovative changes.

**2020:** "Medium-term Program for the Reform of the Banking Sector" was approved.

**2021:** Legal regulations for the sale of digital bonds with electronic money were improved, promoting the usage of digital money.

**2022:** Systemically important banks became open joint-stock companies (JSCs), while other banks became JSCs.

**2023:** The national brand ₮ card adopted EMV/chip technology. Mongolia's payment system now meets global standards in terms of speed, reliability, and security.

**2024:** The 100th anniversary of the establishment of the banking system in Mongolia.



## Headline article

# Lkhagvasuren Byadran: The banking system of Mongolia is strengthening



*Interview with the Governor of the Bank of Mongolia, Lkhagvasuren B., about the origin, development, and strengthening of the banking system, the role and contribution of the Central Bank, and electronic financial services.*

**-It is the 100th anniversary of the establishment and strengthening of the modern banking system in Mongolia. How would you define the role and contribution of the banking sector in the economic development of Mongolia?**

-Over the past century, Mongolia's banking sector has evolved to meet international standards, significantly enhancing its role in the economy and making a valuable contribution to the country's development. The Industrial and Commercial Bank of Mongolia, now the Bank of Mongolia, was established in 1924. A year later, the national currency, the tugrik, was introduced—a pivotal milestone in our history. This marked the beginning of a robust monetary system that supported Mongolia's economic and



► social development through internal financing.

From 1924 to 1991, the Bank of Mongolia single-handedly shaped financial intermediation and the financial system, acting as the primary financial market intermediary. However, since the introduction of the two-tier banking system in 1991, the Bank of Mongolia has played a crucial role in the rapid development of the banking and financial system. Initially, the Bank of Mongolia had 22 employees and a branch in Altanbulag soum. By the end of 2023, the bank employs 16,459 people, operates 303 branches, 1,019 settlement centers, 51 currency exchange points, and 5 representative offices. Over its 100-year history, the Bank of Mongolia has adopted and localized best practices from around the world, enhancing rapid internal and external payments, maintaining price stability, managing foreign currency reserves, ensuring financial stability, producing internationally standardized quantitative data, and conducting thorough research and analysis.

Today, the Bank of Mongolia functions as a state institution, issuing bank, determines the monetary policy, banking industry regulator, financial intermediary, foreign exchange reserve manager, Treasury "wealth custodian," financial education provider, and loan and financial database manager. It plays an integral role in all sectors of society. Over the past 33 years, the banking sector has been a pioneer in services and technology, reaching international development standards and becoming a key pillar of Mongolia's economy. The banking industry's journey has not always been smooth, but it has now reached a level where it supports sustainable and inclusive economic growth and green development.

**-What role do the regional branches and divisions of the Bank of Mongolia play in regional development? How will it evolve in the future?**

-The public is well informed of the monetary policy guidelines, successfully implementing the policies and measures, and making a significant contribution to the issuance of money for transactions by the rural regional branches and divisions of the Bank of Mongolia. The function and importance of regional branches and divisions is to detect and take corrective action on commercial

***Since the introduction of the two-tier banking system in 1991, the Bank of Mongolia has played a crucial role in the rapid development of the banking and financial system***

bank risks in implementing policies to support local social, and economic development, and farming, and to provide professional and methodological recommendations to commercial banks and focus on preventing and mitigating potential risks.

Referring to the last example, about 25% of all 26,000 household borrowers participating in the housing mortgage program buy and live in regional areas. Since last September, the Bank of Mongolia has been implementing measures to provide loans with equal access to the regional areas and Ulaanbaatar city to increase regional loans. As a result, about 50% of the total loans granted this year, or 303.2 billion MNT has been disbursed to 3,000 households, and were given to local communities. Of this, about 58%, or 175.8 billion MNT loans of 1700 households are loans with a 3% interest rate. To ensure the implementation of the law on mitigating the adverse effects of climate change on traditional livestock husbandry approved by the Parliament in April 2024, the Bank of Mongolia cooperated with the Ministry of Food, Agriculture, and Light Industry, the Ministry of Finance, the Credit Guarantee Fund, and commercial banks concluded the loan financing agreement for agricultural cooperative, also known as farmer's co-op's was established. The lending process has been escalating for more than a month since the signing of the contract, and so far, an investment loan of 160.5 billion MNT has been granted to 4,538 farmers of 1,326 cooperatives.

**-Mongolia's currency has a rich history and dates back to ancient times. The currency of Chinggis Khan's era and the Yuan Dynasty have a proud history. However, it is true that we Mongolians do not know much about the history of modern currency. We think you have an interesting story to tell.**

-Yes, we do indeed have a rich history of payment instruments and currencies. Coins were minted and used in trade and commerce from the time of the first powerful Asian nomadic empires Hunnu, followed by the Tureg and Uighurs. Chinggis Khan and his successors established the Great Mongolian Empire and introduced gold, silver, bronze coins, and paper currency into the circulation of the economy.

Later, after the victory of the People's Revolution ►

- and the establishment of the Bank of Mongolia, at the third Congress of the Mongolian People's Revolution Party in August 1924, it was decided that "It is desirable to issue currency with silver guarantee." The resolution of the first meeting of the Mongolian People's Republic noted that the use of foreign currency is harmful to the country's economy and emphasized the importance of creating a national currency.

Subsequently, on February 22, 1925, the People's Government issued a historic resolution on "Monetary Reform". Accordingly, in 1925, the Ministry of Finance, with the support of the Mongolian Trade and Industry Bank, established the Monetary Reform Commission, which was responsible for putting national currency into circulation and developing monetary and credit policies. Thus, it has been 99 years since the first 200 and 100 MNT were put into circulation on December 9, 1925. The national currency "tugrug" has successfully served in all stages of the country's economic development, and has been performing the role of cash flow, means of payment, cost measure, the basic unit of savings, and international money.

In 1260, after Khubilai Khaan became king of the Mongol Empire in Shangdu (the Yuan Dynasty's summer capital), he issued a new paper currency backed by silver to replace the current means of payment, which marked the beginning of the unified money issue. Khubilai Khaan established the Great Yuan Dynasty of Mongolia (1271-1368) and declared his own paper money as the only legal tender and abolished all other metal coins.

**-How many Governors have led the Central Bank in these 100 years? As for you, you started your career at the Bank of Mongolia and worked in the banking and finance industry for about 30 years. Now, on the occasion of the 100th anniversary, you are returning to the Bank of Mongolia and working as the Governor. How do you feel about this?**

-The 100-year development of the Bank of Mongolia and the banking sector can be broadly divided into three periods: the establishment of the Mongolian-Soviet Bank of Industry and

***The banking industry's journey has not always been smooth, but it has now reached a level where it supports sustainable and inclusive economic growth and green development***

Commerce, the development of the Republic of Mongolia's self-owned bank, and the transition to a two-tier banking system. I am currently the 20th Governor of the Central Bank. In the early years (1924-1931), the Bank of Mongolia was managed by Russian specialists due to the lack of specialists in our country. In 1931, S. Dovchin became the first Mongolian chairman and served until 1939. From then until 1991, the bank was managed by seven individuals: Yu. Tsedenbal, T. Baldan, G. Baljid, L. Lkhamsuren, P. Tumor, D. Danzan, and G. Khuderchuluun. Since 1991, when N. Jargalsaikhan was appointed as the first Governor of the Bank of Mongolia, the position has been held by D. Molomjamts, J. Unenbat, O. Chuluunbat, A. Batsukh, N. Bayartsaikhan, L. Purevdorj, and N. Zoljargal.

My career is deeply intertwined with the Central Bank and the banking and financial sector. After graduating from the National University of Mongolia, I began my career as a researcher at the Economic Research Institution of Science under the State Planning Commission. I, then joined the Bank of Mongolia, working across various departments that shape policy decisions. I also served as a financial sector consultant for East Asia and Pacific countries at the World Bank in Washington, USA, gaining valuable experience. Upon returning to the Bank of Mongolia, I contributed to state monetary policy and the banking sector's development. I contributed to the establishment of the Corporation of Deposit Insurance and served as its Founder and first CEO. I later returned to the Bank of Mongolia, eventually becoming the Deputy Governor and the Governor. During my tenure, I oversaw the implementation of the "Extended Financing Program," expedited Mongolia's exit from FATF's "Grey List," and managed monetary policy during the pandemic and geopolitical tensions. Today, economic indicators have improved and recovered positively.

We at the Bank of Mongolia and the banking industry are proud to celebrate the 100th anniversary of modern banking in Mongolia. In addition to addressing economic challenges, we focused on reform policies to stabilize the ►



► banking system. As a result, systemically important banks have gained public ownership, improved governance, established a legal framework for foreign banks to enter the domestic market, and implemented reforms to advance the banking sector.

**-The period of your working in the Mongolian banking sector coincides with the period of transfer to the Mongolian market system. How to determine the 30-year development of Mongolian commercial banks?**

-Briefly summing up the past 33 years of the history of the banking industry, it was a period of rapid development both for banks and for the legal regulation of the banking sector. In 1990, Mongolia switched to a two-tier banking system, and the first commercial banks were established. With the establishment of commercial banks, there was a major systemic change in the banking sector, and the Central Bank assumed a major role in regulating and supervising the activities of commercial banks. The Central Bank immediately started working on developing a legal framework for the banking sector and banking supervision. In April 1991, the Law on Banking was passed, and in 1996 the Law on Central Bank that regulates Central Bank activities. With the adoption of these laws, the legal framework for the banking sector was established. During the economic transition period, many banks were established, but due to a lack of expertise, the banking sector faced difficulties between 1994 and 1996.

A period of relative stability in the banking sector began in 2000 thanks to the improvement of the legal framework. Bank liquidity, capital adequacy, and credit quality have improved, the number of qualified personnel in the banking sector has increased, and banks' operations have solidified. Since 2010, the activities of the banking sector have expanded and developed, the scale and scope of commercial bank operations have expanded, and new technologies have been introduced. It can be said that our banking sector has maintained pace with global developments.

The stability of the banking sector was further strengthened by creating a deposit insurance

***This reform has become a remarkable event for the long-term stability of Mongolia's banking and financial sector***

system, which is one of the main pillars of a stable banking sector. The prudential requirements for banking operations, the requirements for good governance, risk management, and bank supervision and enforcement measures for insolvent banks were established in line with good international practices and with consideration of our country's specific characteristics. The banking supervision framework has been updated to comply with Basel banking standards and risk-based supervision and macroprudential policy tools have been introduced.

Despite the improvement of the legal framework of the banking sector and the banking supervision in accordance with international standards, some banks became insolvent and liquidated, mostly due to poor governance. These events and lessons set the stage for the implementation of the next reform in the banking sector. The Bank of Mongolia implemented the medium-term reform program of the banking sector with the main goal of reducing the concentration of ownership in banks starting in 2020. This change can be called the "revolution" in the banking sector. As a result, all systematically important banks of Mongolia, namely, Khan Bank, Trade and Development Bank, Golomt Bank, Khas Bank, and the State Bank have successfully become joint-stock companies in 2023. This reform has become a remarkable event for the long-term stability of Mongolia's banking and financial sector, as well as for economic and social development that will stimulate the development of the stock market.

**-The central bank of the country is the face of the country. It is also true for our Central Bank. Highly qualified employees who are educated in foreign and domestic universities work in the Bank. How do you see the future of the workforce?**

-The central bank implements the state monetary policy. The human resources activities of the Bank of Mongolia have been organized within the human resources policy and legal framework like other central banks of the world. In the past, the Bank of Mongolia has organized human resource planning efficiently in accordance with the organization's activities and has paid more attention to the training of qualified workforce in the field of ►

► banking and finance. In the preparation of human resources, selection was made from applicants who graduated from not only Mongolian, but also from well-known international universities, and we support our employees to attend master's and doctorate degrees at international universities. Regular attention is paid to re-training and improving the skills and knowledge of employees, such as attending foreign training courses of the Central Bank of other countries and international banks and financial institutions. We follow a policy of continuous development of knowledge and skills of employees and train professional personnel.

Permanent employment of employees is to implement a systematic policy in the field that employees who have graduated from universities share the knowledge learned from others and transfer and rotate them to units to acquire all kinds of skills, today the Central Bank has internationally trained and well-qualified staff. The average length of service of all employees of the Bank of Mongolia is 25 years, which is the first clear indication that they have matured and started to work firmly in their jobs. We are working in parallel with the improvement of communication, based on joint labor activities of representatives of the young, middle, and senior generations, and having the knowledge, education, and skills of the employees of the Bank of Mongolia.

Our staff, who have gained experience during their tenure at the Bank of Mongolia, are highly skilled, and have improved their professional education. Our employees receive job offers from well-known domestic and international organizations. The Bank of Mongolia provides opportunities for transfers to prestigious institutions. For example, our former employees assumed management-level positions at prestigious institutions such as the United Nations, International Monetary Fund, World Bank, Asian Development Bank, Central Bank of New Zealand, Amazon Company, Ministry of Economic Development, Ministry of Finance, Oyu Tolog, and other banks.

In the future, the Bank of Mongolia will continue to identify the future needs of the organization's employees and implement the traditional methods and tools of the central bank within the framework of the corresponding programs. We plan the

***Regular attention is paid to re-training and improving the skills and knowledge of employees, such as attending foreign training courses of the Central Bank of other countries***

operation and organizational structure of the Bank of Mongolia, adopt a comprehensive action program, and introduce the latest changes in human resources using digital transformation and artificial intelligence.

**-Can you say that the past 100 years are 100 years in which the policies, operations, security, and financial stability of the Bank of Mongolia have been firmly strengthened?**

-Yes, over the past 100 years, the activities of the Bank of Mongolia and the banking system have significantly strengthened. The Bank of Mongolia has been a pioneer of development, continuously modernizing its activities to align with social and economic progress. This is an ongoing process. Today, the Bank of Mongolia has localized best practices and scientific achievements from modern central banks, adapting them to our country's unique characteristics. When the Bank of Mongolia was first established, its goals were to organize monetary flow, eliminate foreign loan sharks, and introduce the national currency. Today, it ensures price and financial stability and introduces the necessary infrastructure and tools.

The legal environment for the central bank's policies and operations evolves to meet social and economic development needs, continuously enhancing financial market infrastructure and policy tools. These efforts aim to protect and strengthen financial stability while effectively implementing the Central Bank's policies and activities.

**-Technological development of Mongolia's banking and financial sector ranks high in the world. Artificial intelligence is becoming the defining point of the development trends of all industries around the world. So, what measures are Mongolian banks taking in the field of artificial intelligence?**

-The banking and financial sector has been delivering products and services based on modern electronic technology that meet the needs and requirements of its customers. Today, the field of payment and settlement is nearly completely digitalized in Mongolia. This was clear even though the Covid-19 pandemic strict lockdown did not disrupt our transactions. Analysis system models and methods necessary for the implementation ►



- of policies aimed at meeting these main goals are being developed and used in a way that reflects the progress of economic and financial sciences. Not only the banks, the Treasury Department of the Ministry of Finance, and the Securities Depository Center were connected to the unified network of the clearing center of the Bank of Mongolia, but now non-banking financial institutions and fintech companies have joined it. As a result, citizens, businesses, and enterprises are making payments 24/7 using channels such as payment cards, the internet, mobile banking, QR codes, and applications, regardless of time and location.

The Bank of Mongolia has successfully introduced the RTGS system, Automatic Clearing House System, Payment Card Clearing System, Integrated Central Bank Trading System, International TIER II accredited data center, and Token Verification Systems that are all in line with international standards and solutions. In June of last year, the Bank of Mongolia was named the winner of "The Pioneer" award from the "Fintech RegTech Global Awards" selected by the Central Banking Institute. This award was previously received by the Financial Regulatory Commission of Great Britain in 2022, the Central Bank of Thailand in 2021, the Central Bank of France in 2019, and the Bank of Canada in 2018. Beginning in 2016, the Bank of Mongolia has implemented the "Payment System Modernization" project in the main areas of infrastructure, legal framework, equipment, and payment system software. The award was given because the development of this high-frequency digital data and reports collection system from banks has become a benchmark for central banks around the world. The installation and development of this system was carried out in cooperation with the national company "Novelsoft".

As a result, over the past five years, the number of real-time transactions has grown by an average of 45 percent per year, and the number of payment card transactions by 24 percent. According to reports, there are 4.3 million cardholders in our country as of last year, and 2.2 million are actively using them.

In the future, it will be possible to analyze this large amount of data needed for the development of financial services in real-time using artificial

***Bank of Mongolia is paying more attention to creating an opportunity for foreign banks to establish their branches in the domestic market***

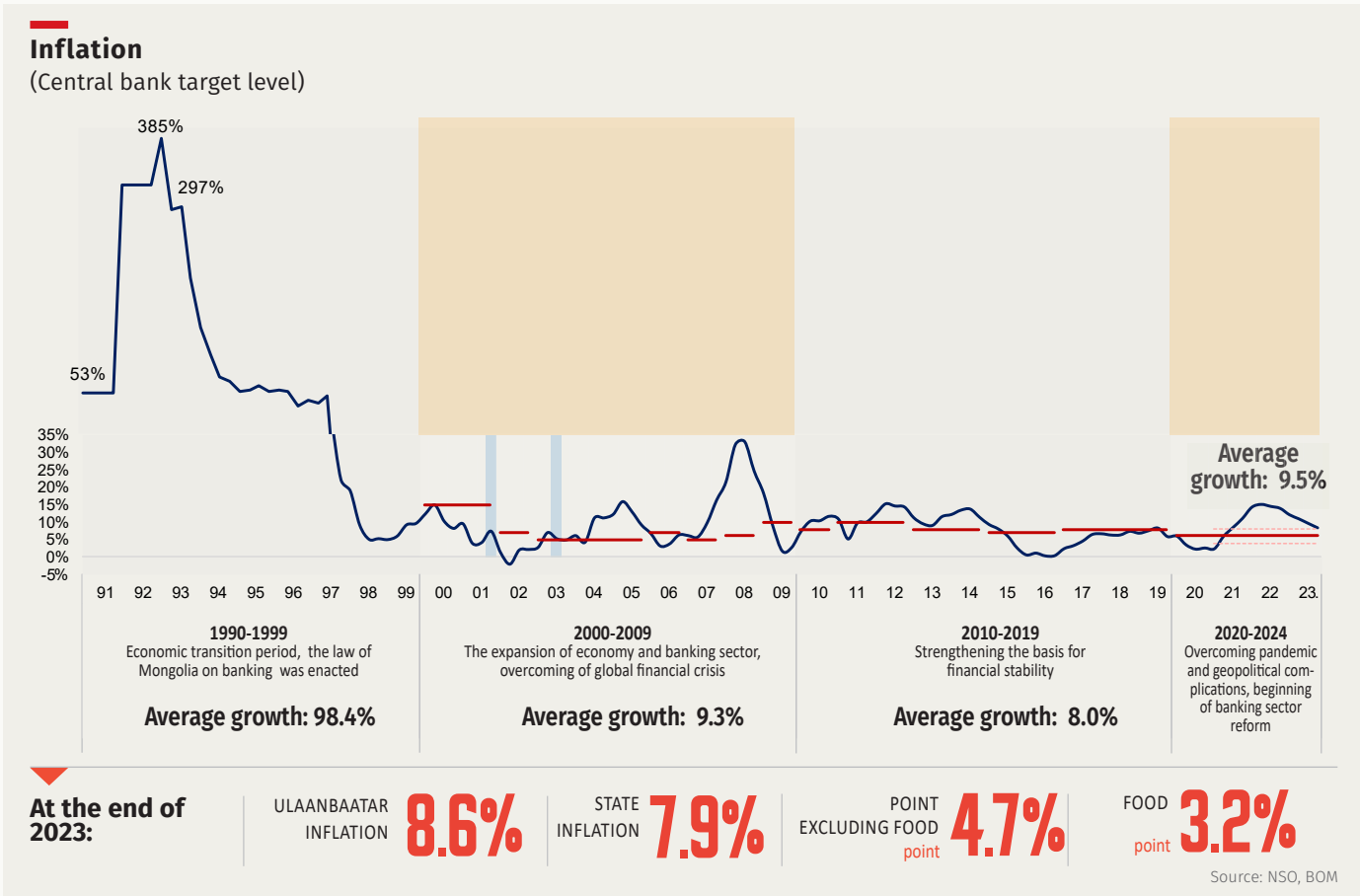
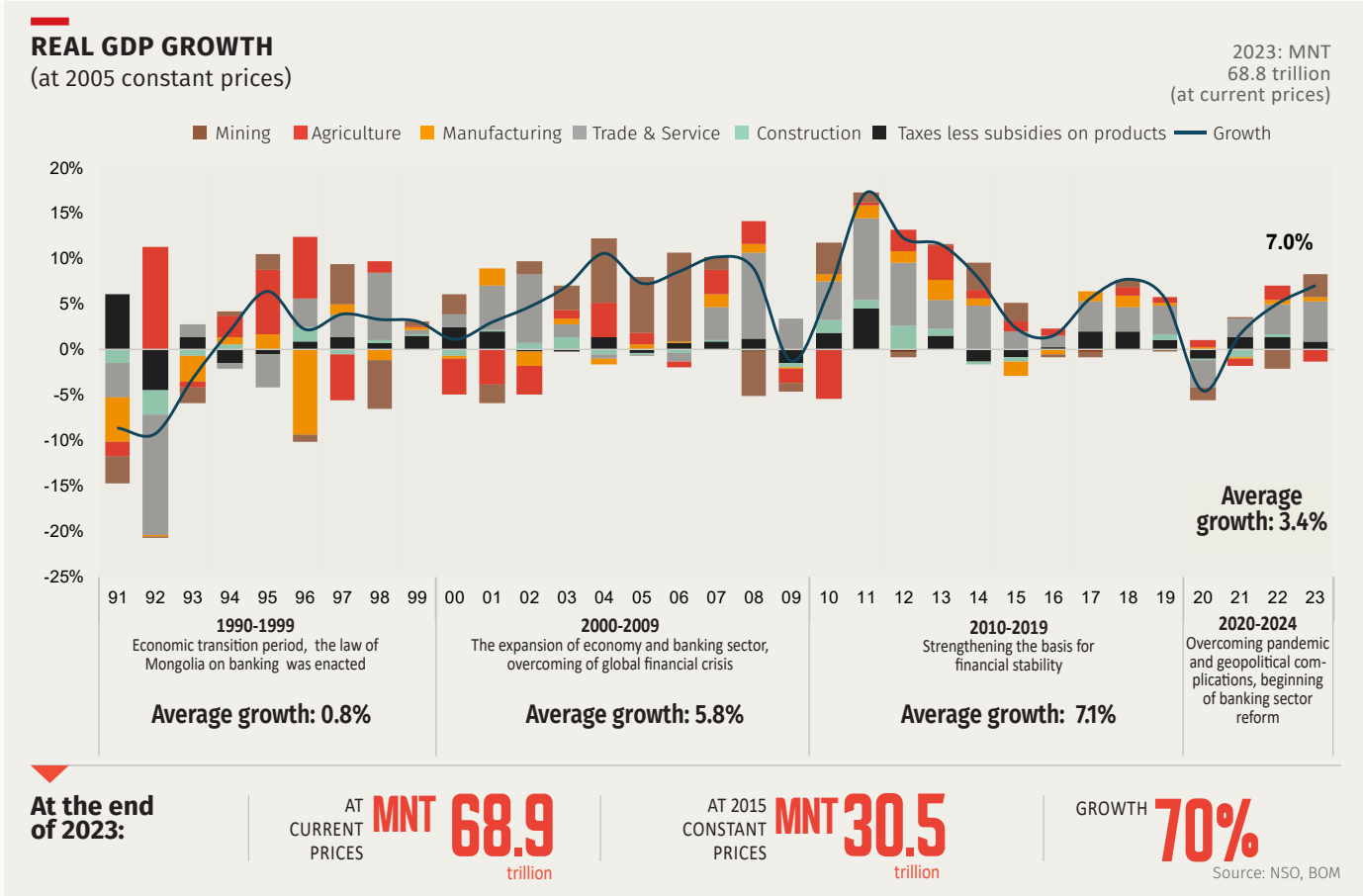
intelligence, calculate the risks that may arise, and take measures in advance with optimal solutions that do not have a negative impact on the economy. Fully automated system that can receive all financial reports, news, and statistics electronically and process it with the help of artificial intelligence has been developed and tested. As a result of this system, it is possible to issue reports and news with very little time delay.

**-The Bank of Mongolia is embarking on a new century, leaving behind the previous one. What is the focus of the new century?**

-One of the directions of monetary policy in 2024 is to facilitate the establishment of foreign bank branches in the domestic financial market, enhancing financial inclusion and ensuring stable growth of the banking sector. Foreign banks and financial institutions entering the domestic market may have positive effects such as increasing foreign funding and capital sources, increasing competition in the banking and financial sector, improving efficiency, and stimulating the development of the domestic financial market. Relevant regulations have been drafted and approved under the Law on Specialized Investment Bank. I would like to emphasize that the Bank of Mongolia is paying more attention to creating an opportunity for foreign banks to establish their branches in the domestic market.

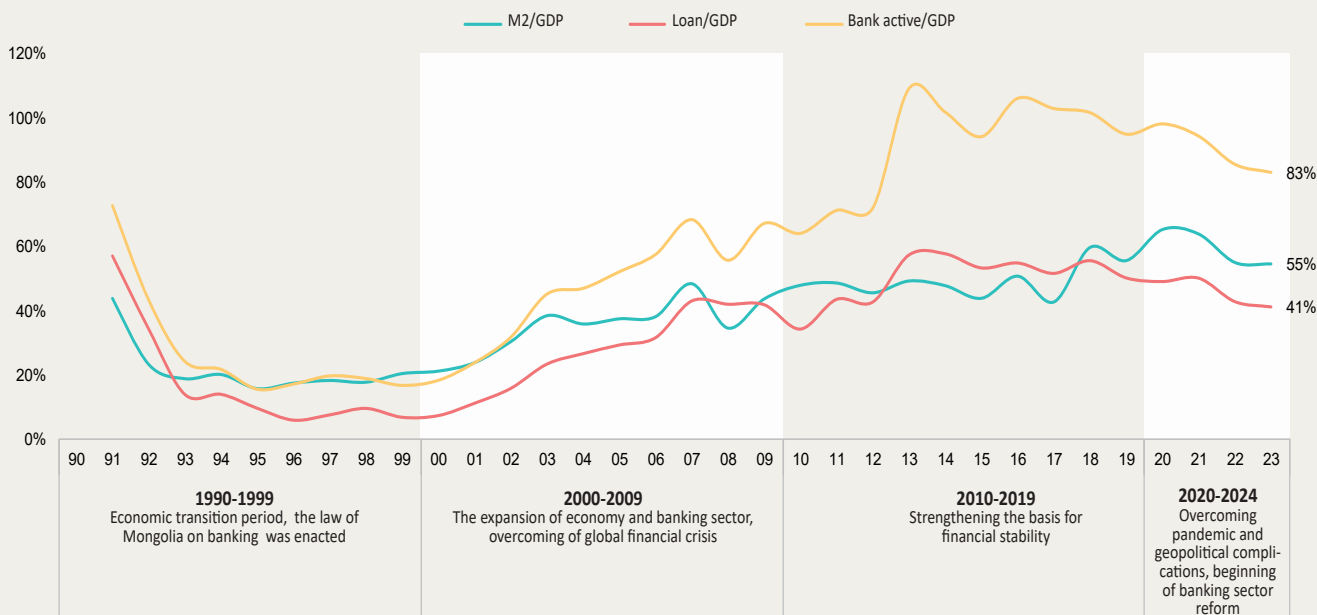
Starting in 2024, we are implementing a new strategy aimed at enhancing public financial literacy and economic knowledge. While there has been progress in people's understanding of basic financial products and services, there remains a significant gap in economic and financial knowledge, particularly in inflation, interest rates, and financial risks. Therefore, in addition to fostering a foundation in economic and financial literacy, we are committed to equipping individuals and households with knowledge about potential financial risks and challenges. For instance, we are actively involved in initiatives to prevent financial fraud and protect the interests of financial consumers. This involves regular public awareness campaigns, informative sessions, and outreach efforts to educate and empower the community. ■

# Infographic





## M2, Loan, Banking sector active (by share in GDP)



At the end of 2023:

M2 MONEY  
SUPPLY

**MNT 37.6**  
trillion

BANK LOAN  
OUTSTANDING

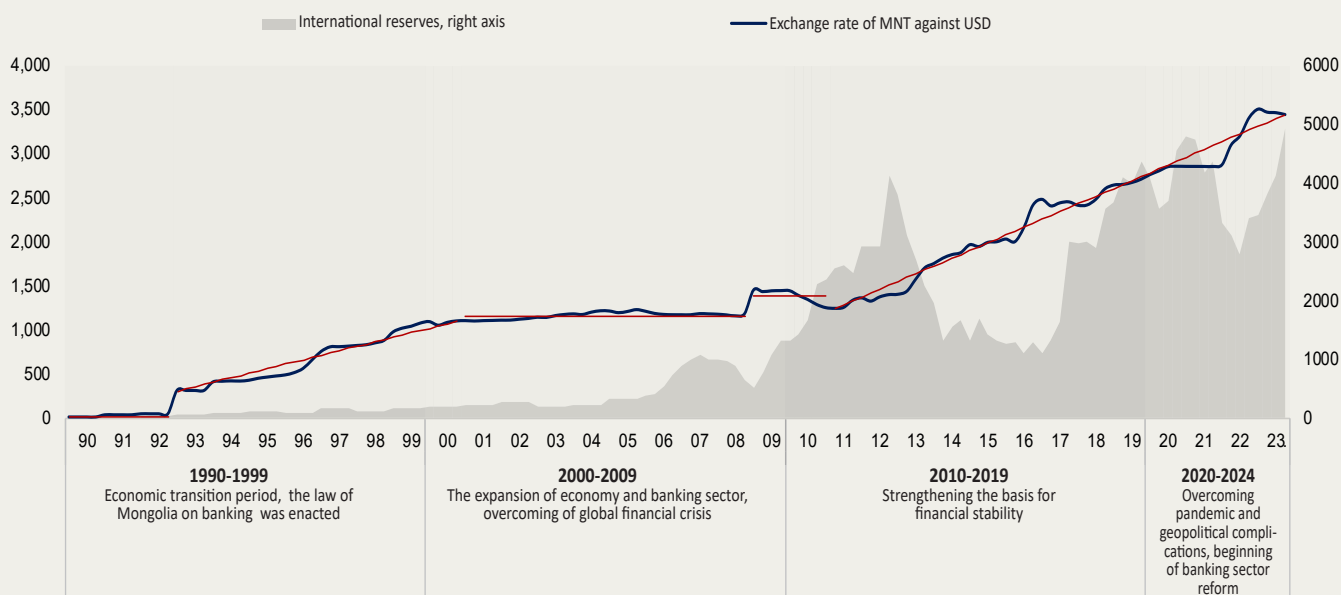
**MNT 27.1**  
trillion

BANK  
ACTIVE

**MNT 57.1**  
trillion

Source: NSO, BOM

## International reserves, exchange rate (million USD)



As of May 2024:

**5,183.4** million \$  
2024.05.31

Average  
exchange rate  
in May 2024

USD  
**3,381.2**

EUR  
**3,652.4**

CNY  
**467.4**

Source: BOM

## Monetary policy

# The developments of monetary policy framework in Mongolia

**M**onetary policy is a principal process implemented by the Central bank (The Bank of Mongolia) by which the financial market conditions are influenced through changes in money supply, its prices and demand in order to maintain economic and price stability. Monetary policy creates fundamentals for sustainable economic growth. The Central Bank is responsible for preventing income levels dropping and livelihoods deteriorating due to economic overheating and accelerating inflation. The foundation for a successful monetary policy implementation is the market development, institutional organization and human resource capacity.

A hundred years ago, when the Bank of Mongolia (BoM) was founded, financial markets were incomplete, foreign money-laundering posts met the financial needs of Mongolians, increased competition from foreign countries to set up banks and currency chaos had erupted. Thus, there was a need to create a national currency, organize it and establish a national bank. The Mongolian Trade and Industry Bank (the Bank of Mongolia) with Mongolian-Soviet shareholders was established on June 22nd, 1924 by the Mongolian Government decree. However, historical records show that over 10 years, monetary and loan policies have gone through a disorderly struggle to create their financial structure.

Starting in 1933, the BoM began to arrange loans for specific purposes, with repayment periods, a secured loan guaranteed by type of collateral and started to analyze financial statements to determine the borrowing amount. In other words, it is believed that this was the start of system that manages the growth of aggregate monetary supply. In 1954, Mongolia was able to fully own the banks of the Republic of Mongolia therefore able to create monetary and loan policies tailored to the goals of its country. Since then until 1991, monetary policy was implemented through allocating funding to centrally



**Banking system crisis in the 1990s brought about major changes in the development of the banking system**

planned economic measures in a comprehensive plan approved by the Federal Planning Commission.

Since the beginning of 1990, Mongolia has begun its transition into a market economy, resulting in the formation of the banking system into a two-tier structure that led to a need to establish a market infrastructure and institutional change in monetary policy implementation. In the first years, establishing an organization in the financial markets, creating human resources and stabilizing the banking, payments and settlements system was an immediate priority. Thus, in the early days of the transition, monetary policy was designed to meet the pressing measures/issues of the time by allocating financial resources. Starting in 1996, the BoM started to introduce a new monetary policy framework and tools by adapting the Central bank law with international best practices and establishing financial market infrastructure to also monitor and manage the banking system.

As the monetary policy tools were being newly introduced, this created the foundation for the BoM to shift to the monetary targeting framework. Starting in 1994, the BoM began to ►



- use the International Monetary Fund (IMF) method of calculating surplus and deficiencies of money between sectors when conducting its “Financial Programming” calculations, which was the basis for monetary policy implementation that targeted monetary indicators.

Monetary policy goals and their implementation have been transformed/updated along with the development of the financial markets and recent market dynamics. Policy formation has taken a clearer framework since 1996, limiting excessive price increases resulting in hyperinflation recorded above 100 percent during the transition period has fallen to single digits. The banking system crisis recorded in the 1990s brought about major changes in the development of the banking system and further changed the financial mediation functions. At the same time, Mongolia’s main export commodity, copper prices increased in the global commodity market, resulting in a successful payment of “big debt” to Russia due to the increase in foreign exchange reserves, which have been generally increasing since then. These key factors were able to absorb the large amounts of money in the economy. Researchers have concluded that during this period, a rapid economic monetary growth process can be seen. During this time, the BoM has conducted global foundational research on economic structure and model development.

Due to the spillover effects from the global, financial crisis, the domestic economy experienced a balance of payments crisis creating a risk to the financial system’s stability. As stability became essential in the monetary policy objectives, the Central Bank, as a lender of last resort, was quick to organize systemic stability protection measures. Until now, major advances have been made to create flexible monetary policy tools. A unified interest rate policy is being implemented as the interbank market rate is led by the policy rate. Since the policy rate was introduced in 2007, the foundation to target interbank rate as monetary policy activity has been laid out, and began to create a corridor to manage it.

The fact that monetary and macro-prudential policy tools are evolving to include a wider range of tools to be made available in more complex economic environments has become of great importance as range of space for policy measures,

and implementation in a prompt manner has widened. The impact of shocks in the global market has become increasingly stronger as our economy has become more dependent on the mining industry.

As the banking sector evolved and the interbank market began to operate, it provided an environment to use reserve money to manage the money supply in the market to meet inflation target. It proved to be more efficient to influence interest rates rather than manage the aggregate money supply as the economy stabilized, foreign investment increased and began to integrate into international markets, resulting in increase in foreign currency assets flow. Therefore, the policy framework has changed to target “policy rate”.

The next phase of this reform started in 2014, which was a forward-looking policy decision making framework based on economic projections. There was a heightened need to manage and calculate inflation expectations as policy decisions were based on inflation projections. As expectations became an integral part of the determination of monetary policy outlook, it has created a need to explain the near-term outlook and communicate policy decisions to the public. Open market operations were used as a policy tool to implement this central bank communication strategy. The launch of this tool came to include press conferences, inflation reports and promotion of different kinds of policy measures to the public.

The independence and accountability of the policy decisions further strengthens as the central bank becomes more open and accessible to the public. The end goal is to improve confidence in the central bank and increase its capacity to manage expectations. The main objectives of the monetary policy during the transition period to a market economy have evolved over time to reflect the development of the country’s economic and financial systems.

Over the past 30 years, the inflation targets have been defined annually based on the consumer price index (CPI). Recognizing that the effects of monetary policy extend beyond a single year, it became inappropriate to change or redefine objectives every year. Therefore, since 2017, the inflation target is set for medium terms (three years) when submitted to the State Great Khural of Mongolia (parliament) each year. ►

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***The impact of shocks in the global market become increasingly stronger as our economy become more dependent on the mining industry***

► Actual inflation has often exceeded the target level due to factors beyond the influence of monetary policy, such as market infrastructure and seasonal effects, which have led to supply-side changes causing increases in the prices of consumer goods and services (see Figure 1). For instance, adverse weather conditions have increased the frequency of harsh winters and poor summer conditions, leading to crop failures and reduced livestock productivity. These factors have disrupted the supply of essential food staff like meat, milk, and vegetables, causing price increases. As our economy's dependence on mining has grown, the frequency and impact of external shocks on inflation have not diminished over the past 20 years. This has led to increased price volatility of imported goods and products, which constitute a significant portion of household consumption.

To transition to a forward-looking monetary policy framework, the Bank of Mongolia needed to establish, develop, and implement forecasting and analytical structures. In 2006, within the framework of cooperation with the National Bank of Poland, the Bank of Mongolia developed an "Reduced Model of Inflation Forecasting", which served as the main forecasting model until 2013. Starting in 2011, with the support from the European Bank for Reconstruction and Development, the Bank of Mongolia has successfully implemented the "Forecasting and Policy Analysis System" project in two phases.

In 2015, the Bank of Mongolia started a system of making monetary policy decisions according to a publicly pre-announced fixed schedule, marking an important step in adopting modern central banking practices. Additionally, following the 2018 amendments to the Law on the Central Bank of Mongolia (Bank of Mongolia), the Monetary Policy Committee, tasked with discussing and deciding on monetary policy issues, was established. This event marked as a new infrastructure for the Bank of Mongolia to engage with the public and helped to elevate the bank's accountability and transparency to a new level.

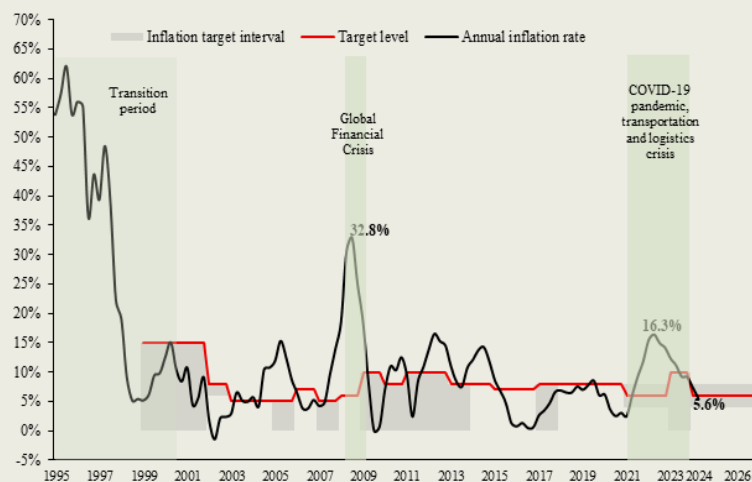
Over the past decade, challenges such as the "Global Financial Crisis," the "Mining Supercycle," the COVID-19 pandemic, and international

political and economic fragmentation have presented obstacles that could not be addressed with conventional policy tools. To overcome these crises, the central bank, acting as the lender of last resort, made significant policy decisions, sometimes using unconventional tools. These included converting short-term repo agreements into longer-term instruments and temporarily taking a risks of bank borrowers to reduce the risk.

The monetary policy implementation institution has evolved to enhance economic growth, development, and the financial market structure while addressing challenges and difficulties as per the Law on the Central Bank of Mongolia. The current system is equipped to analyze the economic situation, forecast short- and medium-term outlooks, and assess potential scenarios for possible changes, and it possesses dedicated human resource base that aims to leverage in innovations information technology. As the economy and financial markets become more sophisticated and closely linked with global financial markets, the continuous improvement of the monetary policy decision-making system and the enhancement of analytical and forecasting methodologies will be made. ■

### Inflation target, performance

Inflation rate in Ulaanbaatar city



Source: National Statistics Office, Bank of Mongolia



# Monetary and Macprudential policies during the COVID-19

Due to COVID-19 pandemic, the countries around the world experienced a sudden and deep crisis that has not happened in the last 80 years. The world was not prepared for how to organize and act, and what policies to implement during an economic crisis caused by health. The key was to maintain the stability of the financial system. For instance, this was to protect borrowers, who lost their business or wage income due to quarantine, and prevent them from becoming bad borrowers. Also, it was to prevent the lending financial institution from going bankrupt due to lack of liquidity and solvency when loan repayments were interrupted.

Countries worldwide experienced a double wave of crisis as the pandemic caused rapid downturns in economic sectors like tourism, trade, services, and transportation, alongside the emergence of new virus strains. The COVID-19 pandemic has affected the Mongolian economy and finance through the balance of payments, income and credit channels. Due to the pandemic, in the first half of 2020, the commodity price, which is the main export of Mongolia, fell by about 20 percent, along with the border closure and the more than 40 days suspension of the mining products export. This event had a strong negative impact on the economy, foreign trade and balance of payments. At the same time, the economy has stagnated due to strict lockdowns to prevent infection, as seen in the mobility index, which has fallen overall by about 40 percent in the end of 2020 and the first quarter of 2021.

Balance of payments difficulties and lockdowns brought the economy to a standstill, creating the mutual crisis risk of financial market and economy. As the economy shrank by 9.7 percent in the first half of 2020 and market uncertainty surged, banks cut lending with total bank loans down 5 percent year-on-year at the end of 2020.

While the primary aim of the policy when designing it during the pandemic was to mitigate its negative impact on economy, the top priority was to safeguard the structure of the economic and financial markets, which would facilitate a rapid post-pandemic recovery. In order to support financial intermediation, the Monetary Policy Committee of the Bank of Mongolia held a total of 7 regular and non-

regular meetings in 2020 and decreased the policy rate by 5 percentage points to a historically low level of 6 percent. In addition, in order to exempt credit financing and reduce the lost opportunity cost of financing, measures were taken to reduce the reserve requirements of MNT. In September 2020, the traditional short-term (14 days) repo financing of the Central Bank was changed to long-term repo financing. The instrument was intended to stop credit disruptions in the banking system and protect jobs by increasing lending.

As of May 31, 2020, 43.6 thousand borrowers experienced difficulties in the repayments of their outstanding loans of 3.01 trillion MNT. In this context, the Bank of Mongolia implemented macroprudential policy regulation measures aimed at preventing enterprises and households from defaulting, ensuring the stability of the banking sector, and reducing risks. It includes:

Extending the downgrading period of loans granted to individuals for mortgage, salary, pension and other consumer purposes, and not downgrading loans for a certain period of time (gradually transferred to normal mode from August 2021 to April 2022).

Temporary regulatory measures have been taken to make restructuring of all types of loans unrestricted.

In order to support the bank's profitability and risk-tolerance capacity, the bank liquidity ratio was reduced from 25 to 20 percent (until June 2021) and the effective date of capital buffer requirement was extended (until July 01, 2022). Also, in order to reduce the negative impact of the pandemic, some regulations on asset classification, creating asset risk fund, and its allocation were loosened in 2020. And starting from 2021, they were transferred to normal mode.

Furthermore, the negative effects of the pandemic did not alleviate significantly and the growth of sectors was uneven although the economy began to recover in 2021. So, the policy rate was maintained at 6 percent throughout 2021 and policy measures to support growth were continued. Also, monetary policy operations are aimed at promoting economic sectors that have been hit hard by the pandemic and increasing non-mining exports through long-term repo financing. ■

## Macprudential policy

# The macroprudential policy framework in Mongolia

Since the global financial crisis of 2008, financial stability became a subject of policy priority and many countries have incorporated “macroprudential policy” mandate in their relevant legal frameworks and is now implementing the policy in wide array. Following the international best practice, the Parliament of Mongolia approved the amendments to the Central bank law in January 2018 delegating the mandate of policymaking and implementing macroprudential policy to the Monetary Policy Committee (MPC) of Bank of Mongolia. Henceforth, macroprudential policy was institutionalized in Mongolia, laying the groundwork for the Integrated Policy Framework of Bank of Mongolia to integrate macroeconomic and financial policies. By coordinating monetary, exchange rate, capital flow management and macroprudential policies, an integrated policy framework aims to ensure macroeconomic internal and external balance in parallel to ensuring financial stability.

In 2018, the MPC approved the “Macroprudential Policy Strategy” constructed upon international experience and the recommendations of international organizations. The strategy incorporates the primary objective of macroprudential policy in Mongolia, the policy tools, institutional arrangement, and the principles for policy proposals. Furthermore, in 2019, through an internal restructuring of Bank of Mongolia in line with recommendations and technical assistance from international organizations, a division responsible for systemic risk analysis and macroprudential policy proposals was established within the Monetary Policy Department and is now performing these functions.



**In 2018,  
“Macroprudential Policy  
Strategy” was  
approved**

## Macroprudential policy decisions

The MPC of the Bank of Mongolia is making macroprudential policy decisions to mitigate systemic risks in the financial system and ensure financial stability. With the objectives of alleviating household debt burden and thereby preventing systemic risk build-up and promoting banks’ business loan issuance rather than consumer loan issuance, DSTI ratio and maturity limits on banks’ consumer loans have been adopted since 2019. Consumer loan growth has decelerated in response to the policy measures and has had the effects of lowering the growth of consumer goods imports, reducing the balance of payment and currency market pressures, and promoting business loan issuance. However, there remains the risk of a certain part of the consumer loan demand shifting from banks to non-bank financial institutions (NBFIs) in response to the policy, lowering the policy's effectiveness. Therefore, ►



- works to encompass all NBFIs consumer loans to the DSTI limits harmonizing the macroprudential policies across the financial sector and coordinating the policy decisions of financial sector regulatory are currently in process with the Financial Regulatory Commission of Mongolia.

Within the objective of ensuring financial stability, the risk-weight of unhedged foreign exchange loans was increased from 120 percent to 150 percent from the beginning of 2019 to lower exchange rate risks for households and businesses that do not have foreign exchange income and are in a limited capacity to mitigate the risks involved. Additionally, to lower the dollarization of bank liabilities and to maintain the relative yield of domestic currency “tugrik”, a decision was made by the MPC in 2020 to Reduce remuneration on MNT reserve requirements issued to banks by the amount corresponding to the ratio of foreign currency-denominated (FX) deposits with relatively higher rates and FX current accounts charging any rate to total FX deposits and current accounts. Subsequently, deposit dollarization decreased, lowering the risk of foreign currency mismatch and contributing to maintaining financial stability.

During the COVID-19 pandemic, the Bank of Mongolia adopted a set of macroprudential policy decisions targeted at lowering the impact of negative macroeconomic shocks, promoting economic recovery and ensuring financial stability. During its 3rd quarterly meeting in 2022, MPC decided to exclude certain bank liabilities with maturities of at least 360 days and more that are newly funded on international markets in the form of bonds or loans from required reserve liabilities after considering the internal and external economic risks and conditions. In its 1st quarterly meeting in 2023, the MPC decided to exclude banks’ newly issued fundings from international markets in the form of bonds and loans with maturities up to 360 days from reserve requirement calculation. Subsequently, banks were able to leverage the policy decisions to attract foreign exchange financing in times of insufficient capital inflows and helped to stabilize capital flows and external balance.

***"Systemic Risk Assessment Model" is being developed within the scope of the World Bank and Asian Development Bank technical assistance projects***

In response to excessive pension loan growth, household debt burden, and risk increases, the Bank of Mongolia decided in March 2023, to increase the risk-weight from 100 percent to 150 percent for pension loans if borrowers’ pension income is below subsistence level after monthly repayments /debt servicing/ and initial loan maturity is longer than 6 months to 150 percent until the end of 2023. Furthermore, in its 4th quarterly meeting in 2023, MPC decided to expand the above policy measure by extending the duration of the decision indefinitely for pension loans with maturities longer than 6 months and pension loans with pension income that is below subsistence level after monthly loan payments beginning in 2024.

### **Macroprudential policy analytical framework**

Since 2018, the Bank of Mongolia has introduced and developed internationally employed systemic risk analysis and monitoring methodologies and tools for its internal operations. Specifically, 35 indicators for systemic risk indication are used to construct the systemic risk heat map along with the financial cycle index used to identify cyclical risks in the financial sector. The “Macro-Financial Model” was developed in cooperation with OGREsearch from the Czech Republic and is now completed to be used for policy analysis.

Starting in 2020, the "Systemic Risk Assessment Model" is being developed within the scope of the World Bank and Asian Development Bank technical assistance projects. The Bank of Mongolia has been appointed a resident advisor from the IMF since December 2023, following a request for long-term technical assistance from the IMF to strengthen the macroprudential policy framework and enhance the analytical methodology to meet the international standard. In this framework, the advisor is working to assist and advise BOM on all matters relating to developing the institutional and operational arrangements of the Mongolian macroprudential policy framework to the latest international best practices. ■

## Currency reforms

# A brief history of currency reforms in Mongolia

On the 100th anniversary of the Bank of Mongolia, commemorative coins named "The Decree of Kublai Khan," "Pair of Dragons," and "Bank of Mongolia - 100 Years" were issued and presented to the public. Although coins are not widely used in modern transactions, their thousands of years of history and educational value make them extremely precious.

Numerous historical documents attest that since the times of the Hun, Tureg, and Uigur empires, Mongols have utilized coinage in trade. Following the establishment of the Great Mongol Empire, Genghis Khan issued the first gold coin during his campaign against the Khwarezmians in 1219-1220. Subsequently, he unified the Mongolian state, minting gold and silver coins called Sukhes and introducing the world's first paper money in 1227. By 1253, a "Money Affairs Department" akin to a modern bank was established to oversee monetary transactions.

During the Yuan Dynasty, paper currency and 52 coins bearing the names and seals of ancient Mongolian Khans were circulated. Today, paper notes issued under Kublai Khan's decree from 800 years ago remain a rare relic. Throughout the Mongol Empire, more than 100 types of gold, silver, metal coins, and paper currency were in circulation.



Kublai Khan coins



Golden coins of Genghis Khan

During the Manchu rule, Mongolia lacked a national bank, financial system, or money-lending system. The market relied on Imperial Russian and Chinese paper currency, as well as English, American, and Mexican gold and silver coins, cast bullion silver, and Chinese and Manchurian silver castings.

In 1921, following the People's Revolution, the People's Republic of Mongolia gained independence, marking the advent of modern currency. Immediately after the revolution's victory, the government prioritized establishing a national currency. The foundation of the national financial system was laid in March 1921, and on June 2, 1924, the Bank of Commerce and Industry of Mongolia opened its doors. On February 22, 1925, the People's Government issued a historic resolution on monetary reform, granting the Bank of Mongolia the exclusive right to issue currency notes in denominations of 1, 2, 5, 10, 25, 50, and 100 MNT.

The MNT was first circulated on December 9, 1925, becoming Mongolia's new national currency. Initially, 900 pieces of 18-gram white silver coins, named 'tugrik,' were approved, alongside the introduction of paper notes. Subsequently, new MNT notes were printed and circulated in 1939, 1941, 1955, and 1996 to expand the State Bank's money supply. ■

By 1253, a "Money Affairs Department" akin to a modern bank was established

## Foreign currency

# Exchange rate policy and international reserves management

Mongolia is a small, open economy, and its foreign trade structure has a small number of large exporters and a larger number of small importers. This affects short-term fluctuations in the domestic currency market. The Bank of Mongolia has been working to ensure togrog's (MNT) exchange rate flexibility consistent with the macroeconomic fundamentals. Therefore, the Bank of Mongolia has been intervening in the domestic FX market to smooth the sharp exchange rate fluctuations caused by the short-term demand and supply gap.

On the other hand, the flexible exchange rate regime align with the macroeconomic fundamentals is crucial for ensuring the stability of the economy. Economic fundamentals are a multi-factorial and broad concept. It includes the economic situation of trading partner countries and foreign investment, the competitiveness of export and import substitution sectors, terms of trade, the balance of payments and external debt situation, the debt situation of the government, households, and the private sector, the dollarization of loans and deposits, the adequacy of foreign reserves, and the effect of exchange rates on inflation.

The Bank of Mongolia considers foreign trade competitiveness and financial stability in its exchange rate policy. For example, during the "Covid-19" pandemic, the borders were closed and FX inflow shrank. In this situation, there were possibilities of severe exchange rate depreciation of MNT against foreign currencies, rise on cost of consumer spending. This would put a lot of pressure on households and enterprises. Therefore, the Central bank took into account the current situation in its monetary and exchange rate policies.

## Official Foreign Currency Reserve

Subject to the "Law on the Central Bank", the Bank of Mongolia manages reserves by prioritizing the

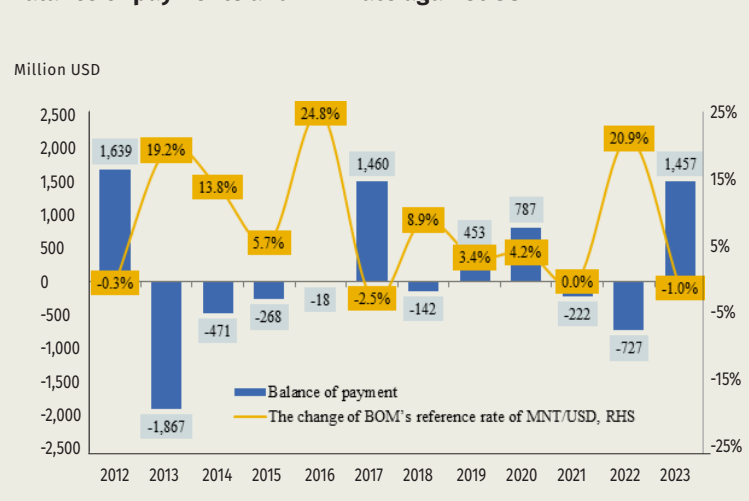
**More than 100 metric tons of precious metals have been purchased, resulting in an increase in foreign exchange reserves by USD 4.0 billion**

safety and liquidity of foreign currency reserves. Only after these requirements are fulfilled, the foreign reserves shall be invested with the aim of seeking returns.

As stated by law, the Bank of Mongolia invests foreign currency reserves in demand deposits and short-term securities of central banks, international banks and financial institutions of leading economies as well as highly rated foreign commercial banks. A portion of foreign currency reserves is also managed by investing in securities of governments, international banks and financial institutions of highly developed economies as a long-term investment portfolio, with the aim of outperforming the approved benchmark yield.

The foreign currency reserves reached their historical highest level of 5,249.8 in March 2024. The improvement in the net inflow of foreign currency through the banking sector and a favorable foreign trade balance, mainly due to the increase in export earnings, have significantly contributed to the growth of foreign currency reserves. Consequently, the adequacy level of foreign currency reserves

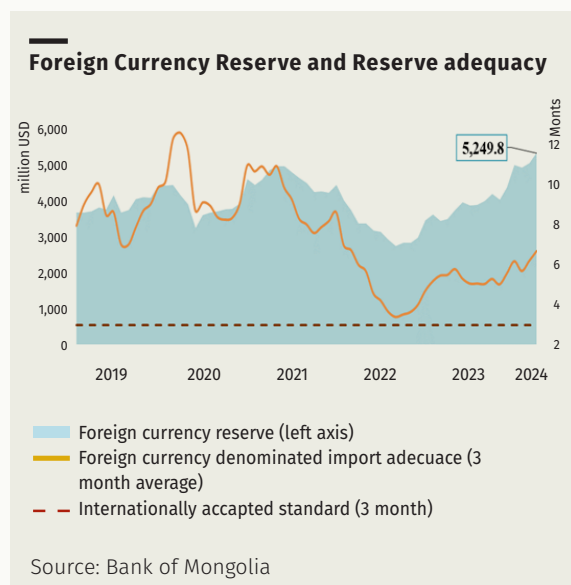
**Balance of payments and MNT rate against USD**





- has improved, now covering 7.5 months of foreign currency-denominated goods imports.

The government of Mongolia has successfully implemented debt management by refinancing foreign bonds that were scheduled to be repaid in 2024, thus reducing the pressure of foreign loan repayments on the reserves.



The Bank of Mongolia made a repayment of 2.5 billion Chinese yuan, or around 350 million US dollars from the total amount used between 2011 and 2016 through the "Chinese Yuan/Mongolian Tugrug Bilateral Currency Swap Arrangement" between the Bank of Mongolia and the People's Bank of China. This prepayment was made using the export income from refining and monetizing gold purchased from the domestic market. The early termination of the swap's total usage has positively impacted the reduction of the central bank's interest costs and was an important step in implementing recommendations and requirements of International Monetary Fund and other international financial institutions.

Within the framework of foreign exchange reserves management, the Bank of Mongolia broadens and diversifies the scope of counterparties and expands cooperation with global systemically important banks. This supports domestic commercial banks in opening direct clearing accounts with more banks. Consequently, domestic commercial

banks had the opportunity to open direct clearing USD accounts for the first time since the country was removed from the gray list of countries with strategic deficiencies. As a starting point, the Trade and Development Bank of Mongolia successfully opened a clearing account with "The Bank of New York Mellon" (BNY Mellon) in the United States and commenced utilizing it for international settlements. This development is of great importance in ensuring continuity of foreign settlements and providing foreign settlement services for customers of commercial banks quickly and cost-effectively.

## Gold price and global tendency



Gold makes up an important part of the central bank's foreign currency reserves due to its qualities of safety, liquidity and profitability. Thus,

central banks are the main owners of this precious metal. Similarly, the Bank of Mongolia, in accordance with the "Treasury Fund Law", purchases precious metals from the domestic market and conducts refining operations at foreign facilities to supplement foreign exchange reserves. Over the past five years, more than 100 metric tons of precious metals have been purchased, resulting in an increase in foreign exchange reserves by USD 4.0 billion.

For centuries, monetized gold has been an important component of the global central bank's reserves. In recent years, the central banks of leading economies have significantly increased their gold purchases, and by the end of 2023, they had increased their official foreign reserves by 36.7 thousand tons of gold. Geopolitical situations, economic and financial market conditions, and the steady growth of the gold price have had a major impact on central banks' purchasing decisions.

The Bank of Mongolia buys 20-24 tons of precious metals per year to increase international foreign reserves. We cooperate with domestic commercial banks, the government, and international organizations to support responsible gold mining practices. ►

***In the first quarter of 2024, the gold price increased and closed at 2,229.87 USD per ounce. From mid-April, the gold price broke the historical high level of 2,400.00 USD***

### Gold price dynamics and US Treasury 10 year bond real yield



Source: Bank of Mongolia

► The Bank of Mongolia analyzes key economic data from international markets, investors' attitudes and expectations, geopolitical conditions, and policy interest rate projections of the central banks in developed countries when buying and monetizing gold from the domestic market to enhance decision-making.

In the first quarter of 2024, the gold price increased and closed at 2,229.87 USD per ounce. From mid-April, the gold price broke the historical high level of 2,400.00 USD. The conflict between Russia and Ukraine, along with ongoing military operations and exchanges of fire in the Middle East, has exacerbated the geopolitical situation and mainly contributed to the rise in gold prices to their historical high. In the future, it is expected that the movement of the gold price will be influenced by political, economic, and social factors, such as armed conflicts in the Middle East and changes in the monetary policy by leading central banks. Market analysts from the international investment banks predict that the average price of gold will be 2,175.0 USD in 2024.

### Precious metals operation

Bank of Mongolia purchased 23.6 tons of precious metals in 2020, 20.8 tons of precious metals in

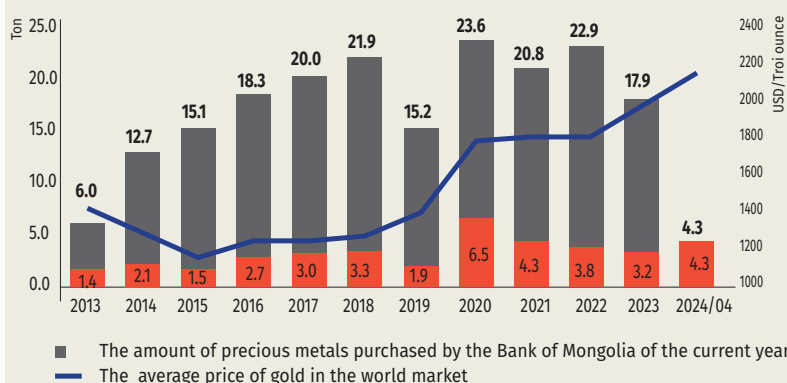
**Movement of the gold price will be influenced by political, economic, and social factors**

2021, 22.9 tons of precious metals in 2022, 17.86 tons in 2023, and 4.3 tons of precious metals by the end of April 2024. The purchased precious metal is monetized and stored in a foreign currency account with 2 tons of 160 pieces gold bullion with 999.9 specimen.

The Bank of Mongolia uses the London Bullion Market Association (LBMA) price to set the purchase price of precious metals every day based on global market prices. Bank of Mongolia also purchases precious metals from gold mining enterprises and citizens based on the results of the analysis from Internationally accredited laboratories and particularly focusing on organizing acquisition operations quickly and smoothly.

In Darkhan-Uul and Bayankhongor provinces, where precious metal mining enterprises and citizens are concentrated, laboratories for the analysis of precious metal samples have been established, enabling gold mining enterprises and citizens to sell their precious metals at the international market rate, receiving the results of the sample analysis electronically and tasks such as quickly making payments etc. were organized in stages. In an effort to formalize the trading of precious metals, silver was imported and sold to artisans and other organizations in the form of bullions and pellets. ■

### The amount of precious metals purchased by the Bank of Mongolia



Source: Bank of Mongolia

## Foreign investment

# Evaluating Mongolia's banking and financial sector investment environment

Institutional investors, both foreign and domestic, typically seek long-term, stable returns. Choosing Mongolia's banking sector for investment decisions indicates a positive assessment of its business models, competitiveness, credit ratings, and regulatory environment. The Bank of Mongolia plays a pivotal role in ensuring the stability of the financial market and banking system, as mandated by the Law of Mongolia on Central bank. This stability is crucial for protecting depositors, maintaining financial stability, and attracting investments.

The recent IPOs of major Mongolian banks are expected to enhance transparency, accountability, and governance within the sector. Publicly traded banks are subject to stricter regulatory scrutiny and must adhere to higher standards of corporate governance. This transition is seen as a significant step towards strengthening the overall financial system, which, in turn, should bolster investor confidence and contribute to sustainable economic growth.

### The Role of IPOs in the banking sector

The transition to a market economy in Mongolia led to the establishment of a two-tiered banking system comprising the central bank and commercial banks. Three decades later, the major banks' IPOs mark an extraordinary event for customers, regulators, and investors alike. IPOs are crucial in the banking industry as they pave the way for better governance, improved ownership structures, and increased transparency. These elements are vital for fostering trust and attracting both domestic and foreign investments.

Some skeptics argue that Mongolia has yet to become an attractive destination for foreign investments. However, the legal mandate of the Bank of Mongolia ensures price and financial stability, which are fundamental for sound economic growth and a stable banking sector. Foreign direct

***These elements are vital for fostering trust and attracting both domestic and foreign investments***

investments (FDIs) are essential not only for building foreign exchange reserves and stabilizing the domestic currency but also for bringing in expertise and business culture. The Central Bank of Mongolia actively welcomes and assists foreign banks in entering the Mongolian market, facilitating compliance with local banking laws and fostering cooperation with foreign financial institutions.

### Legal and regulatory framework

The Mongolian financial sector has undergone significant legal reforms aimed at aligning with international standards. These reforms include amendments to Central bank law, banking operations, consumer protection, and the establishment of a new payment system. Such measures are designed to enhance the sector's robustness and ensure long-term developmental goals.

Mongolia's government and policymakers have set forth long-term development goals under the "Vision 2050" plan, which emphasizes the importance of a strong banking sector. The aim is to promote the growth of the middle class and ensure uninterrupted financial services regardless of economic cycles. To achieve these objectives, it is essential to establish a solid legal framework and implement effective governance practices.

In 2021, significant steps were taken to strengthen the banking and financial sector. Banks are now required to operate as public companies, with ownership of bank shares capped at 20% to promote good governance and mitigate risk from concentrated management power. These measures are expected to enhance the sector's transparency and stability, making it more attractive to investors.

### Sectoral investment opportunities

Mongolia's rapidly growing markets and abundant natural resources present potential opportunities for investors. The energy sector, particularly renewable ►



- energy, is a promising area due to Mongolia's vast resources of hydro, solar, and wind power. With 270-300 sunny days a year and 10% of the land considered excellent for wind power generation, Mongolia has significant export potential to meet China's electricity demand.

The mining sector also offers lucrative investment opportunities. Mongolia's abundant natural resources and ongoing large mining projects attract technological innovation and promise unprecedented growth potential. Additionally, the financial sector represents substantial investment opportunities, primarily in digital transformation. The rapid growth of fintech, including digital loans, internet banking, and digital wallets, is significantly contributing to financial sector growth.

Lastly, the agricultural sector holds significant investment potential due to its rich resources, economic significance, and export opportunities. Mongolia's geographical advantage between two large economies makes it ideal for the production and export of organic agricultural products.

### Addressing competitiveness and risks

Investors' decisions are influenced by the competitiveness and risks of the country's economy. According to the recent IMD World Competitiveness report, Mongolia is ranked 62nd out of 64 countries.

**While challenges remain in terms of competitiveness and market size, Mongolia offers significant investment opportunities in the energy, mining, financial, and agricultural sectors.**

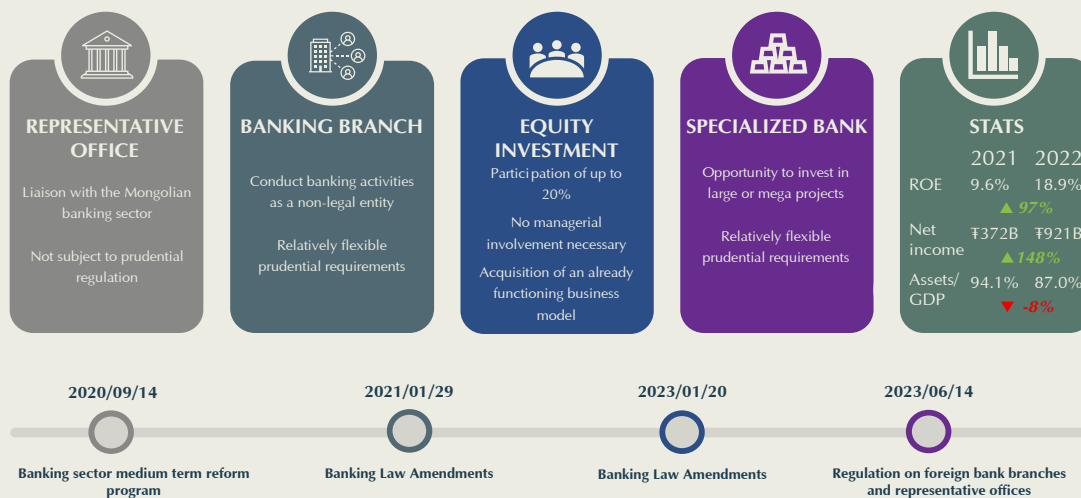
This ranking reflects challenges related to the political, economic, legal, and tax environments, as well as workforce skills, costs, and infrastructure development.

However, Mongolia's investment potential is considered promising by international organizations and credit rating agencies. The country could have competitive advantages in sectors such as renewable energy, cashmere garment production, and uranium mining. While the current competitiveness ranking may seem low, it is essential to consider the potential and opportunities that exist within the country.

In conclusion, the successful IPOs of major Mongolian banks signify a positive development in Mongolia's banking and financial sectors, attracting attention from both foreign and domestic investors. The transition towards more transparent and accountable banking practices, supported by robust legal and regulatory frameworks, enhances the sector's attractiveness and stability. While challenges remain in terms of competitiveness and market size, Mongolia offers significant investment opportunities in the energy, mining, financial, and agricultural sectors. Continued efforts to improve governance, regulatory practices, and sectoral reforms will be crucial in realizing the full potential of Mongolia's banking and financial sectors and attracting sustained investment in the future. ■

## REFORM PROGRAM: INVESTMENT OPPORTUNITIES IN THE BANKING SECTOR

THE MEDIUM-TERM REFORM PROGRAM AND LEGAL FRAMEWORK REVISIONS HAVE GREATLY INCREASED INVESTMENT OPPORTUNITIES IN THE BANKING SECTOR, WHICH IS EXPECTED TO GROW RAPIDLY



## Payment system

# The national payment system, leveraging advanced technologies

*Bank of Mongolia has also been carefully observing the developments around the world regarding the CBDC research*



## Payment system policy and strategy

With the aim of promoting financial stability and monetary policy, the Bank of Mongolia, as a central bank, plays a key role in the development of the national payment system that is in line with international standards as well as in the oversight of the payment system operators, participants, and service providers. The reform of Mongolia's National Payment System (NPS) began with the implementation of the "National Payment System Development Strategy 2009-2014" by the Bank of Mongolia, followed by the 5-year strategy that was implemented in 2015-2020 to further develop the NPS.

During this period, the Law on National Payment System was drafted and approved by the Parliament on May 31, 2017, and came into effect on January 1, 2018. This law granted the responsibility to manage, organize, coordinate, and monitor the NPS of Mongolia to The Bank of Mongolia and legally confirmed it. Also, an important step was taken to strengthen the legal framework by issuing regulations related to electronic money, payment cards, licensing, and supervision. In

addition, systems have been updated to increase the security and efficiency of transactions, including the automatic clearing house system that supports direct debit and credit transfers, and real-time transactions, the national brand ₮ card and the integrated card system.

The Banknetwork is the Real-Time Gross Settlement (RTGS) system of the Bank of Mongolia and is the core payment infrastructure in Mongolia. It was launched in 2009 and upgraded to the second generation RTGS in 2018. All transactions of the amount above MNT 3 million are processed through the RTGS system. This is a modern system that offers a number of tools to participants for efficient managing of liquidity (including liquidity saving capabilities, online monitoring of participants position, provision of intraday liquidity, and reservation of funds for settlement of retail payment systems).

In 2022, the "Mongolia's National Payment System Development Strategy 2022-2026" was developed and approved in accordance with the recommendations of World Bank experts. The strategy is aimed at building a ►

- more secure, reliable, efficient, user-centered payment system and digitizing payment services.

As part of the strategy, "Token Verification System", was introduced in 2023. The system is a system for tokenizing and registering payment card information for payments. It is a large infrastructure that allows payments to be made using the token on mobile and other devices. Tokenization of payment card data will prevent from fraud and fraudulent transactions, significantly reduce the risk of losing card information and other financial information in cases of non-physical payment use of cards such as the Internet, mobile phones, and electronic wallets.

Moreover, on June 16, 2023, the Unified Securities Depository and Central Bank Trading System was introduced as part of the "Payment System Modernization" project. The system consists of 3 parts: Securities Central Depository (CSD), Money market trading system, and Foreign exchange trading system. Integration of the system provided new opportunities including:

As part of the above-mentioned project, the Bank of Mongolia in cooperation with the Mongolian Central Securities Depository (MCSD) launched the Central Securities Depository (CSD) system on June 16, 2023. This development includes a CSD, the Money Market, and Foreign Exchange (FX) Trading System. The launch of this system opens following opportunities:

- The Bank of Mongolia and Unified Securities Depository and Central Bank Trading System are now able to register all types of closed and open financial instruments traded within the country, such as government securities, Central Bank securities, shares, deposit and register company bonds and other financial instruments;
- Introduction of a system which meets international standards, improved possibilities to attract domestic and international investors and protect their interests;
- Through the integration of the Unified Securities Depository and Central Bank Trading System with the "BankSuljee" (RTGS) and the Automatic Clearing House system (ACH+), the settlement of the stock market becomes reliable, efficient, and easy, which increases investor satisfaction;
- Money market, stock market, and foreign exchange market are connected to the banking

**Newly launched system is a comprehensive system that meets international standards**

system. Interconnectedness increases the liquidity in the market and reduce the cost of financing;

- Obtained a unified standard for direct infrastructure connection of the domestic market with the international financial market;
- Securities risk management, collateral management and collateral evaluation management can be implemented according to international principles;

Fintech companies and payment service providers have brought a variety of innovative payment instruments into use to meet our evolving payment needs. If not addressed, this has the potential to present risks. Along with the rapidly evolving technological advancements, cryptocurrencies, a new type of digital currency that is not backed by any central authority has emerged and been widely used, in many countries around the world. However, its high price volatility and other aspects have created uncertainties and challenges in the economic and financial spheres.

As a countermeasure, central banks around the world have started studying and experimenting with what is called the "Central bank digital currency" (CBDC). It is a monetary value stored electronically on the balance sheet of a central bank and; thus; it is a direct liability of the central bank. There are two types of CBDC currently in discussion among financial policymakers, namely the retail-CBDC and the wholesale-CBDC. The retail CBDC is intended to be used by and among the general public, just like the cash that we use daily, whereas the wholesale CBDC is thought to be used by and among only the financial institutions for settling high-value payments, including securities settlement, interbank loan settlement, and so on.

As a regulator of the national payment system and the sole issuer of the country's legal tender, the Bank of Mongolia has also been carefully observing the developments around the world regarding the CBDC research. To this end, a working group has been formed to conduct research and analysis at both local and international level and determine technological solutions for the specifics of our country.

### **National electronic transaction center**

The National Electronic Transaction Center (NETC) was established in 2005 with the core objective (purpose) ►



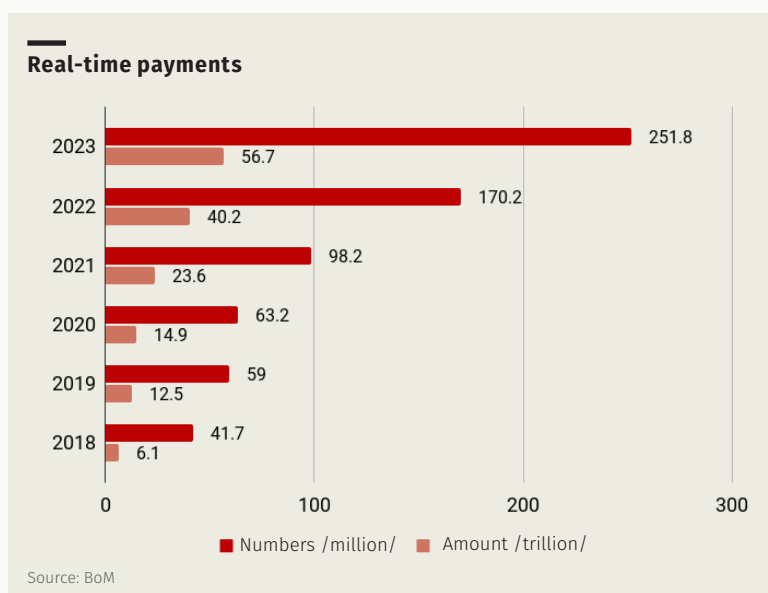
- to provide prompt, efficient and reliable clearing and settlement services of low-value and payment card transactions between participants and support an interoperability of a new non-cash payment means. On February 1st of 2006, the low-value inter-bank transactions started to process through the NETC's integrated network.

The principal objective of the NETC is to ensure the continuous and reliable operation of payment system, to develop national payment system in line with international standards, to expand cooperation with foreign and domestic organizations, to introduce modern new technologies, software and hardware, to mitigate and reduce systemic risks, and to ensure the confidentiality and security of data information.

Since its establishment, NETC successfully implemented major projects and programs and played an important role in the development of Mongolia's payment system. For instance, on May 16, 2010, an integrated inter-participant payment card clearing and settlement network was established enabling and introducing a real-time inter-bank payment card transfer system accessible during 24/7-hour basis that could increase an incentive to extensive card usage. Furthermore, the introduction of National payment T card that represents the national currency tugrik was a significant achievement in the national payment system development history.

The Bank of Mongolia has established an integrated international payment card acceptance network with the Union Pay International of the People's Republic of China in 2012, with the JCB international of Japan in 2013 and started to accept UPI, JCB cards through its own network. And in 2014, the low-value transaction started to process on real-time continuous basis which boosted the expansion of internet banking, electronic banking, and digital banking services.

The Bank of Mongolia has recently completed the implementation of the Payment System Modernization Project financed by the Asian Development Bank with the aim to develop the national payment system, its infrastructure and to increase the accessibility of payment means. As a result of a successful project execution, there were significant outcomes such as the decline in cash usage, introduction of a new non-cash payment means, improvement of the payment system infrastructure and software system, and the



***The system ensures the integrity and authenticity of documents transmitted in the electronic environment and protects against falsification and alteration of information.***

development of a highly competitive, reliable and flexible national payment system.

The Public Key Infrastructure (PKI) system or the digital signature system for the financial institutions was launched in 2019 within the framework of the project which is responsible for strengthening the privacy and security of the information system. The system ensures the integrity and authenticity of documents transmitted in the electronic environment and protects against falsification and alteration of information.

Within the project framework, the low-value transaction system operated by the NETC was replaced with internationally recognized Automatic Clearing House or ACH+ system in 2019. The ACH+ system is distinct by its capacity to transfer credit and debit batch transactions by integrating the same type and purpose large number mass transactions, real-time transactions on 24/7-hour basis, direct debit transaction based on mandate management system. The system has an advantage to eliminate transaction errors by using Central address module system, to avoid the lack of funds by using account reserve management system and supports new advanced technology transactions. For example, the mass transactions, implemented by the Government of Mongolia, such as child money, pensions, dividend disbursements, cash allowances during the Covid-19 epidemic, social security refund payment and etc. are distributed through the ACH+ batch system. ►

► In order to increase the capacity of the infrastructure of the national payment system and to create new technical opportunities, the NETC building was newly constructed and putting it into operation was successfully completed in 2020. Moreover, within the framework of the project, the main data center of the Bank of Mongolia is accredited at the international TIER II level, fully equipped with modern infrastructure and technological solutions and ensures the continuous and reliable operation of the national payment system.

The Bank of Mongolia has also introduced the new payment card system in 2021. Newly launched system is a comprehensive system that meets international standards, supports new types of payment card transactions, provides confidentiality and security, handles system loading and transaction processing capacity. The system participants are able to implement account reserve management system and resolve disputed and erroneous transactions by mutual agreement.

Formerly, only banks, the Ministry of Finance and the Securities Depository Center were connected to the integrated network. Now the participants of the payment system network have expanded their entrance and non-bank financial institutions, fintech companies have an access to the Bank of Mongolia's integrated inter-participant payment network.

**"Token Verification System" was introduced in 2023**

Over the past 5 years, the number of real-time transactions has grown by an average of 45 percent per year, and the number of payment card transactions by 24 percent. As of 2023, there are 4.3 million card holders in the country, and according to the survey 2.2 million are actively used.

### Payment system oversight

The Bank of Mongolia oversee the implementation of regulations, rules, and decisions appropriate governance, management, operations, relationships with users, and connectivity between systems related to payment service providers, issuers of payment instruments, persons authorized to conduct activities related to the provision of payment services, and operators. The purpose of such monitoring is to limit system risk, meet consumer and economic needs, and ensure that it operates reliably and efficiently.

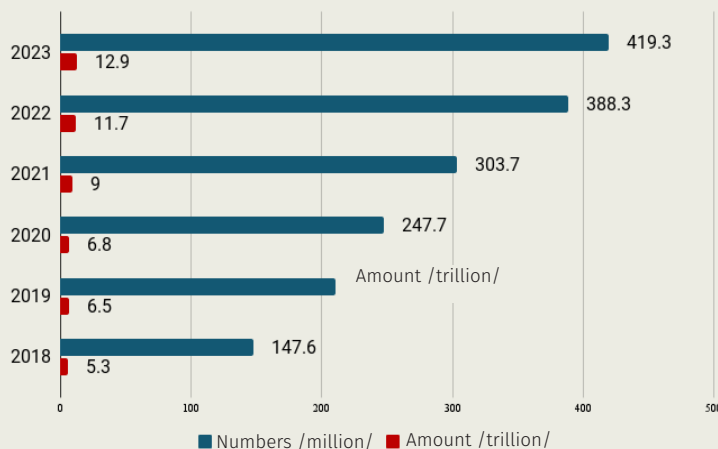
Oversight covers a wide range of activities aimed at strengthening the overall arrangements of payments in the economy, in addition to assessing the payment system in accordance with the requirements set forth in the pre-established standards and oversight policy.

The principles issued by the Bank for International Settlements and the Securities Commission, which are generally applied internationally, require the Central Bank to have the explicit legal authority and the powers to perform its oversight mandate and responsibilities in accordance with its oversight objectives, so the Law on the Central Bank (Mongolian Bank) The Bank of Mongolia shall manage, coordinate and oversee the national payment system and its operations.

Also in the National Payment System Law the Bank of Mongolia regulates and oversees the payment system as a whole and its components, and entrusts the Bank of Mongolia with the responsibility of overseeing the payment system.

The Bank of Mongolia has defined the principles of oversight in the "Payments oversight policy framework". The payment system oversight officers implementing payment systems oversight by focusing on the fulfillment of the specified criteria and requirements by the authorized legal entity. ■

#### Card transactions



Source: BoM

## Supervision

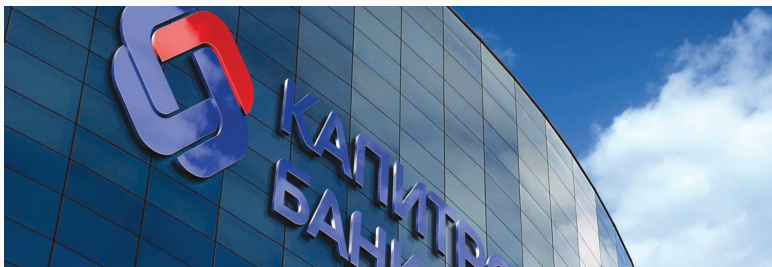
# The regulatory and supervisory framework of the banking sector in Mongolia

The fundamentals of the modern banking and financial system of our country were laid on June 2, 1924, when the Mongolian Trade and Industry Bank, or the current Bank of Mongolia, was established. During the 100 years since the establishment of the Bank of Mongolia, the development path of the banking industry can be divided into following three stages:

**1921-1990** the early stage of the development of the banking sector

**1991-2020** transition stage to two-tier banking system,

Since **2020**, bank's corporate governance reform stage.





► As the regulatory framework of the banking industry needs to be continuously improved and reformed along with the development of the banking industry, the banking supervision and regulations have been continuously improved by incorporating international supervisory principles and standards.

Between 1921 and 1990, there were no specific laws and regulations on banking, but relations related to banking activities were regulated by rules and regulations and the Civil Code of Mongolia. Since 1940, payments made by the Bank of Mongolia have increased, detailed procedures have been issued, and the Bank of Mongolia has become a settlement and financing center. As a result, the Bank of Mongolia has become the center of all financial relations in Mongolia, the over-centralization of all services such as bank loans, payments, and cash registers has increased, and access to rapid financial service has begun to be lost, which created the imperative to create a two-tier banking system.

In 1990, Mongolia shifted to current two-tier banking system as other countries and the first commercial banks were established. With the licensing of the Bank of Mongolia, the Mongolian Cooperative, Industrial Bank, Mongolian Insurance Bank, Trade and Development Bank, Investment and Technological Innovation Bank were established and started their operations. At this time, there were no laws and regulations to regulate the activities of commercial banks. With the establishment of these commercial banks, there was a major systemic change in the banking sector, and the Central Bank became responsible for regulating and supervising the activities of commercial banks. However, due to insufficient legal framework, lack of professional banking personnel, and low level of public acknowledgement and trust about the banking industry, operations of the banks were unstable and it led to many consequent bankruptcies in the banking system of Mongolia.

The financial crisis in the banking sector and the simultaneous bankruptcy of several banks have made it clear that the Central Bank's role is vital to ensure the stability of the banking sector by creating a legal framework for the banking sector

**Number of shareholders within the banking industry increased from around 150 to over 70,000 and a total of 473 billion MNT was raised from the domestic market**

and implementing proper banking supervision and examination for banking operations. As a result, the establishment of the legal framework of the banking sector was accelerated, and the Banking Law was approved in April 1991, and the Central Bank Law was approved in 1996, which regulates the activities of the Central Bank. Also, other main laws of the banking operations, such as the Law on Accounting, the Law on Bills of Exchange, the Law on the Securities Market, the Law on Banks and Authorized Legal Entities on Deposits, Settlements and Credit Operations, the Law on Currency Regulation, and the Law on Auditing were approved and it created the basic foundation for the banking sector's legal framework.

Between 2000 and 2009, relatively stable period began in the banking sector of Mongolia and bank's operations started to smoothen. Banks' liquidity, capital adequacy, and overall credit quality improved, and the banking sector's human resource capacity has enhanced over time. At the same time, banking regulatory framework further strengthened by enacting the Law on Non-Banking Financial Activities in 2002, the Law on the Securities Market in 2002, the Law on Combating Money Laundering and the Financing of Terrorism in 2005, the Law on Guaranteeing Cash Deposits in Banks in 2008, and the Law on Pledge of Real Estate in 2009.

Since 2010, the activities of the banking sector have expanded further as the scale of commercial banks' operations has expanded, and banks have started to introduce new international technologies in their operations. As a result, the period of intensive development of Mongolia's banking sector has begun as the bank activities expanded by introducing a variety of new products and services. At the same time, the banking laws and regulations are further improved by aligning with the Basel international supervisory standards. Also, Central bank's supervisory power has strengthened thanks to the amendment of Banking Law of Mongolia in 2010, which granted full supervisory power to bank supervisors of the Bank of Mongolia.

Simultaneously, the deposit insurance system, one of the key pillars of financial sector stability, ►

- was established. This initiative included the creation of a legal framework mandating the compulsory insurance of cash deposits in banks. The enactment of the Law on Bank Deposit Insurance in 2012 further reinforced the stability and resilience of the banking sector.

Meanwhile, regulations concerning prudential requirements for banking operations, proper bank corporate governance, risk management standards, regular bank inspections, and enforcement measures for insolvent banks were established, based on international best practices and domestic experience. These advancements in regulatory framework significantly enhanced the standards of banking supervision. Since then, efforts to align bank supervision and inspection with international Basel standards have intensified. In 2014, the Bank of Mongolia approved the Medium-term Supervisory Strategy to implement international bank supervision standards, alongside a unified policy document to guide the development of bank supervision. The primary aim of these document was to develop effective and efficient supervision and surveillance activities, implement widely adopted international countercyclical and risk-based regulations, and introduce macroprudential policy tools to prevent systemic risks. As a result of this strategy, the regulation of bank supervision and inspection has become more sophisticated, thereby enhancing its overall effectiveness.

Despite the significant improvements made in the legal framework of the banking sector and more sophisticated supervision and inspection activities aligned with international standards, some banks still faced insolvency and subsequent liquidation due to the lack of prudent corporate governance practices within these institutions. The bank failures and lessons from this event have created a demand for the Central Bank to initiate the next reforms in the banking sector, emphasizing the need for decisive actions to enhance corporate governance within banks.

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***With the establishment of commercial banks, the Central Bank became responsible for regulating and supervising the activities of commercial banks***

Consequently, the Bank of Mongolia implemented the Medium-term Banking Sector reform program aimed at strengthening prudent corporate governance of banks, with the primary objective of reducing shareholding concentration within banks. Under this initiative, the Parliament approved Amendments to the Banking Law in 2021, mandating banks to reorganize as stock companies and reduce ownership concentration within a stipulated timeframe. This legislative overhaul marks the second "revolution" in the banking sector, representing a significant systemic change aimed at addressing governance issues within the industry. As a result of this program, all commercial banks operating within the sector underwent transformation into joint-stock companies. Notably, systematically important banks such as Khan Bank, Trade Development Bank, Golomt Bank, Khas Bank, and State Bank offered their shares to the public for the first time, changing their entity type. The primary market trading of shares of these systemically important banks on the stock market witnessed a surge in the number of shareholders within the banking industry, increasing from around 150 to over 70,000. A total of 473 billion MNT was raised from the domestic market, significantly enhancing public oversight over banks. This reform represents a monumental event poised to not only protect the long-term stability of Mongolia's banking and financial sector but also stimulate the development of the stock market.

The banking sector alone comprises approximately 95% of Mongolia's financial sector, making its stability crucial for the long-term sustainable growth of the country's economy. Accordingly, the Central Bank will undertake continuous efforts to enhance the legal framework regulating the banking sector and improve the effectiveness of supervision and inspection in line with continuously evolving banking sector. ■

# Supervisory framework for anti-money laundering and combating terrorism financing in the banking sector

In 2016, Asia-Pacific Group on Money Laundering (APG) carried out Mongolia's Mutual Evaluation and placed Mongolia under enhanced (expedited) follow-up, which created a risk of entering the FATF "Grey list". The management of the Bank of Mongolia decided that it is necessary to strengthen the banking sector's anti-money laundering and combating the financing of terrorism framework, and to take necessary measures to monitor and supervise how banks fulfill their obligations under the Law on combating money laundering and financing of terrorism, and gradually implement tasks to bring policies and regulations in line with international standards and requirements, therefore to implement this function, The Bank of Mongolia established Special Monitoring Unit in the structure of the Supervision Department.

Special Monitoring Unit of the Supervision Department, formed with a team of 4 supervisors, started conducting onsite and offsite examination in banks in the area of combating money laundering and terrorism financing. By conducting examinations in this area on a regular basis it made possible for banks to create a risk-based system related to the prevention, detection and reporting of money laundering and terrorism financing, where conditions have been established for the Bank of Mongolia to transfer our examination procedures to a risk-based approach.

Subsequently, in 2020, the Special Monitoring Unit was expanded, and it was reorganized into the Anti-Money Laundering Division (AML Division) at the Supervision Department of the Bank of Mongolia. AML Division has created an important responsibility to protect and prevent the financial system from the risk of money laundering and terrorism financing, and it has become a noteworthy step in the 100-year history of the banking system. AML Division is responsible for ensuring the implementation of the Law on combating money laundering and financing of terrorism, conducting risk-based onsite examination of

banks, assessing and monitoring risks of banks remotely, and ensuring compliance with FATF 40 recommendations and international standards of relevant policies and regulations, as well as ensuring and contributing in banking and financial system stability.

To comply with international requirements when conducting risk-based monitoring and examinations and to introduce regulatory methods, amendments where made to Regulation of preventive measures on anti-money laundering and combating financing of terrorism, Regulation

of onsite supervision of the banks on anti-money laundering and combating terrorism financing, Regulation of offsite supervision of the banks on anti-money laundering and combating terrorism financing, also focused on educating and training the public and bank employees to prevent exposure to the risk of money laundering and terrorism financing.

In addition, in accordance with the bank's structure, products and services, the method of delivery channels to customers and the scale of operations, estimating business exposure of bank's to money laundering, financing of terrorism and weapons of mass destruction, evaluating the internal control system, structure and effectiveness, carry out risk-based examinations of the implementation of the bank's anti-money laundering and combating terrorism financing and the proliferation of weapons of mass destruction financing, application of financial sanctions, and take enforcement actions for detected violations and deficiencies, and eliminate violations.

As a result, ensuring the implementation of the Law on combating money laundering and financing of terrorism, also working as a member of the Cooperation Council and the National Council, AML Division of the Supervision Department of the Bank of Mongolia contributed to re-ratings of Mongolia to become the first country in Asia and the Pacific, and the fifth country in the world to fully comply with FATF 40 Recommendations. ■





## Anti-money laundering

# Anti-money laundering and counter terrorism financing activities

**M**oney laundering and terrorism financing are global issues that undermine the stability of a country's financial system and hinder social and economic development. An inadequate anti-money laundering system in any country adversely impacts banking and financial institutions, delays cross-border payments and international transfers, increases costs, and leads to the risk of national currency devaluation. Numerous studies also indicate that tax evasion and corruption escalate under such conditions, not only reducing public revenue but also deterring foreign investment.

Therefore, countries worldwide should mitigate risks by adhering to the 40 Technical Recommendations and 11 Immediate Outcomes issued by the Financial Action Task Force (FATF), the international standard-setting organization for combating money laundering and terrorism financing (AML/CFT). This adherence is crucial to safeguarding the security of the financial system and strengthening the AML/CFT framework not only at the national level but also on a global scale.

Mongolia first joined the "International Convention for the Suppression of the Financing of Terrorism" in 2003 and, in 2004, became a member



of the Asia-Pacific Group on Money Laundering (APG), a FATF-style regional body. This membership entailed an obligation to comply with international AML/CFT standards. Consequently, on July 6, 2006, the Law on Combating Money Laundering and Terrorism Financing was approved, establishing the legal basis and foundation for AML/CFT prevention activities in Mongolia.

The AML/CFT system is intricately connected with the banking and financial system and directly affects ►

## Timeline of measures taken to remove Mongolia from the "Grey List"

**2017.07.21** – Mongolia underwent its second APG Mutual Evaluation.

**2017.09.20** – FATF placed Mongolia under Enhanced Expedited Follow-up.

**2019.10.18** – FATF decided to place Mongolia under the "Grey List."

**2019.12.11** – A working group was established by the Prime Minister's Resolution to address the action plan developed with FATF.

**2019.12.25** – Government Resolution No. 463 approved the Action Plan to

address 4 Immediate Outcomes for removing Mongolia from FATF's Grey List.

**2020.01.20** – The Follow-up report of Mongolia on updates for addressing 6 action items was discussed and successfully defended at the joint meeting held by the ICRG and APG.

**2020.05.11** – The Follow-up report on measures taken to address the remaining 3 action items was presented and successfully defended at the virtual meeting with the APJG.

**2020.08.12** – FIU-Mongolia, together

with the representatives of relevant authorities, held virtual meetings with the APJG Co-Chair and APG Secretariats.

**2020.08.14** – A working group responsible for organizing the FATF's on-site visit was established by Order No. 151 of the Minister of Finance.

**2020.08.26** – The Governor of the Bank of Mongolia requested the APJG Co-Chairs and APG Secretariat to organize the on-site visit virtually in Mongolia.

**2020.09.17** – Mongolia's on-site report

was prepared jointly by the FIU-Mongolia with relevant organizations and submitted to FATF.

**2020.10.01** – FATF's on-site visit was organized under the supervision of the State Emergency Commission, following the requirements set for the prevention of the Covid-19 pandemic.

**2020.10.23** – The FATF President officially announced that Mongolia was removed from the FATF's list of jurisdictions with strategic AML/CFT deficiencies or Grey list.

► the international cooperation and reputation of the financial sector. Consequently, the Bank of Mongolia places great importance on improving the system for combating money laundering and financing of terrorism, making it a priority in the Monetary Policy Guidelines. By fully complying with the recommendations and requirements of the FATF, foreign investors and financial institutions will increase their trust in our country's AML/CFT system, thereby expanding the foreign relations of banks. This compliance will positively impact the stability of the industry by reducing operational, reputational, and legal risks for domestic banking and financial institutions. Moreover, the effective operation of the AML/CFT system will prevent the laundering of any proceeds of crime through the financial sector, reduce the occurrence of predicate offenses such as corruption and tax evasion, and contribute to the reduction of the underground economy.

In 2019, Mongolia was placed on the FATF's "grey list" of countries with strategic deficiencies for the second time. In response, a working group was established to address the tasks set by the FATF, and through intensive efforts and collaboration with other government organizations, the private sector, and professional associations, Mongolia was able

***"National Strategy to Combat Money Laundering and Terrorist Financing," based on the National risk assessment, was approved***

to exit the "grey list" in 2020 in a remarkably short period.

To consolidate this achievement, Mongolia conducted a National Risk Assessment of Money Laundering and Terrorism Financing in 2020. The assessment revealed that the banking sector's knowledge, understanding, and human resources in the area of AML/CFT were relatively high compared to other sectors. Moreover, the assessment concluded that enhancing the governance system of the compliance unit and ensuring the conditions for independent and autonomous operations, by improving the legal framework and increasing the understanding and knowledge of the bank's executive management, are necessary steps for further progress.

The "National Strategy to Combat Money Laundering and Terrorist Financing," based on the National risk assessment, was approved as an annex to Government Resolution No. 265 dated July 5, 2022. This program is being implemented at the national level from 2022 to 2030, encompassing 8 objectives and 48 goals. The implementation of the program is crucial for strengthening the AML/CFT system, preparing for the next round of mutual evaluations, and avoiding inclusion on the sanctions list of international organizations. ■

## Mongolia became a country rated as compliant or largely compliant on all 40 FATF Recommendations

Mongolia's 2023 Follow-up report was submitted to the Asia/Pacific Group on Money Laundering (APG) on February 1, 2023. Consequently, at the 25th Annual Meeting of the APG, Mongolia successfully upgraded the rating of FATF Recommendation 8 to "compliant." This achievement makes Mongolia the first country in Asia and the Pacific, and the fifth country globally, to achieve a compliant or largely compliant rating for all 40 FATF Recommendations including the updated Recommendation 15.

This recognition affirms that Mongolia is effectively establishing the necessary legal and regulatory framework for the implementation of FATF 40 Recommendations, the international standards for combating money laundering, terrorism financing, and the financing of the proliferation of weapons of mass destruction.



## Research

# The development of research at the Bank of Mongolia



The central bank's policy decisions are supported by comprehensive research and analysis. In this respect, the central bank primarily conducts analysis and research in the fields of economics and finance, while the research unit focuses on compilation of fundamental research and databases that are essential for the bank's core activities.

The Bank of Mongolia officially established its first internal research unit in 1991, marking the beginning of an emphasis on research and analysis. As a result, it has contributed not only to the central bank but also to the development of economic policy research in Mongolia. The research unit initially worked on tasks such as producing reports and publishing statistical analysis bulletins, it later narrowed its focus to analysis that defined economic and banking sector conditions, including the money multiplier, dollarization, core inflation and banking profitability. The Bank of Mongolia has prioritized the improvement of the quality and scope of its research work by supporting its researchers and specialists to study at prestigious universities, research institutions, and central banks in many countries in various fields such as economics, econometrics, statistics, financial management, and public administration, thereby

contributing to the strengthening of its research teams. As a result of this effort, the expansion in the capabilities of researchers, the variety of models and methods they use, along with the increase in types of quantitative data and its length, has become major driver in the improving the quality of research at the Bank of Mongolia.

In 2007–2008, the Bank of Mongolia's reform of the monetary policy framework necessitated policy decisions based on the economic prospects. As a result, the Bank of Mongolia first adapted and developed econometric models, such as SIMOM, SVAR, and SARIMA, with a focus on developing models for policy analysis. During that period, the Bank of Mongolia conducted a significant amount of fundamental research on topics such as household and banking sector stress tests, the impact of foreign direct investment, the effects of housing programs, and money demand, supply, and loan. Furthermore, the Bank of Mongolia adapted the GAP model, a DSGE-based model, and near-term forecasting models like BVAR, FAVAR, and MIDAS for the Mongolian economy and used them for policy analysis. In addition to econometric model forecasts, the Bank of Mongolia considers sector

**Over 30  
research papers  
in high-ranking,  
peer-reviewed  
international  
journals were  
published by BoM  
researchers**



► changes, expert opinions and assessments, and the expectations of citizens, businesses, and researchers in policy decisions. Since 2009, the Bank of Mongolia has conducted quarterly surveys such as the "Inflation Expectations Survey" and the "Business Tendency Survey" to inform policy decisions.

In recent years, in addition to conducting macro-level research, the Bank of Mongolia has placed special emphasis on micro-level quantitative analysis and research. It has aligned its focus with current trends by examining contemporary topics such as machine learning, big data, and climate. In this context, the Bank of Mongolia is collaborating with international consultant specialists to develop a foundation for microdata analysis, improve data processing, use advanced econometric and structural models in empirical research, and enhance human resource capabilities.

The Bank of Mongolia's research quality has significantly improved over the past 20 years, as evidenced by the publication of over 30 research papers in high-ranking, peer-reviewed international journals by its researchers. Additionally, they serve as reviewers for these journals. Besides its contribution to improving research quality and increasing credibility of the results, leading to their use in policy decisions, it is also significant for enhancing the Bank of Mongolia's reputation in the public and internationally. Based on its research performance over the past 10 years, the "Ideas" database, which evaluates research institutions in the field of economics, has recognized the Bank of Mongolia as the most influential research institute in Mongolia (Ideas, 2024). Furthermore, 30 (about 20 percent) of the 140 additional functions for the "EViews" software, which is widely used for research and analysis by central banks, ministries of finance, and financial institutions, were developed solely by the Bank of Mongolia researchers and have been used more than 6 million times in a duplicated number worldwide.

The Bank of Mongolia has expanded its research cooperation with international organizations and central banks. For example, since joining the South East Asian Central Banks (SEACEN) in 1999, the Bank of Mongolia has conducted and published empirical research on the Mongolian economy for SEACEN's research publications. Since 2015, the Bank of

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Mongolia has collaborated with the Bank of Korea on the "Knowledge Partnership Program" annually, jointly working on and publishing research to enhance central bank policy analysis and improve infrastructure. Furthermore, since 2021, the Bank of Mongolia has conducted economic research within the Swiss Graduate Institute's "Bilateral Assistance and Capacity Building for Central Banks" program, strengthening the capacity of its researchers.

In 2018, the Bank of Mongolia established the Economic Research and Training Institute with the aim of enhancing fundamental research to support policy decisions in economic development and finance. This initiative has grown into a significant event that enhances research and analytical activities. Also, the Bank of Mongolia has issued a publication called "Money-Finance-Wealth" to support the opportunity to write and publish research articles and to improve accessibility, which has become an event to support the activities of universities, higher institutions, and academic organizations, adding one more research journal. In 2021, in accordance with the decree of the Governor of the Bank of Mongolia, the Bank of Mongolia provided financial support to researchers who published their research in high-ranking international journals rated A\* and A, aiming to enhance the quality of research and increase the number of research papers published in international journals.

Since 2002, the Bank of Mongolia has been issuing the "Working Paper Series", which has now reached 18 volumes and contains over 370 research papers conducted by its economists and researchers. Furthermore, research works are compiled and published as special editions during the Bank of Mongolia's special anniversary years. The "Working Paper Series" remains a primary source in the academic field. While the Bank of Mongolia's policy decisions are based on research and analysis, they do not necessarily reflect its official position. The Bank of Mongolia provides a space for researchers to conduct research using their own methodology and perspective, making it an independent platform without intervention from their representatives. Here lies the fundamental principle of the Bank of Mongolia's research. ■

## Khan Bank

# Khan Bank - Where everyone's welcome and sustainability thrives



**K**han Bank has been a significant part of Mongolia's 100-year banking history, consistently striving for growth and development to reach today's height. Over its 33-year history, the bank has played a major role in the country's economic development. Despite being just over 30 years old, its rich professional experience is rooted in a century-long legacy.

In a pivotal moment for Mongolia's financial landscape, the Council of Ministers of the Mongolian People's Republic issued Resolution No. 422 in 1990, approving the Common Rules of Commercial Banks. This was soon followed by the approval of the Banking Law by the State Small Khural in April 1991, restructuring State Bank into the central bank (the Bank of Mongolia), with the authority to implement monetary policy and establishing the foundation for a two-tier banking system. This legal milestone led to the creation of 15 commercial banks in the

early 1990s, with Khan Bank proudly emerging as the fifth.

At the dawn of the 1990s, State Bank, which served citizens and agricultural production associations, cooperatives, state farms, feed farms, and locally-owned enterprises in 255 soums, transitioned its extensive network of 326 branches and employees to Khan Bank. This transfer included resources amounting to 2.2 billion MNT and an inherited loan of 2.3 billion MNT for 100 million MNT[MB1].

By 1995, Agricultural Bank had expanded its reach to cover 90 percent of Mongolia's territory, serving 51.9 percent of the population.

The 1990s were a tumultuous period for Agricultural Bank, with external and internal factors taking a heavy toll. The economic crisis, rising prices, currency devaluation, deteriorating solvency of organizations and citizens, and a surge

- in unsecured loans significantly impacted the bank's operations. These challenges led to a capital shortfall of 4.9 billion MNT, with liabilities exceeding assets, pushing the bank to the brink of insolvency and facing the real danger of bankruptcy.

In response, under Article 11 of Resolution No. 17 (1996), the Government of Mongolia collaborated with the World Bank and Asian Development Bank to approve a plan for restructuring the Agricultural Bank of Mongolia. Despite the efforts of the Bank of Mongolia and the Ministry of Finance, the situation continued to deteriorate, showing no signs of improvement.

In 1999, the Bank of Mongolia established a special regime for Agricultural Bank and initiated receivership. Supported by the World Bank, the International Monetary Fund, Asian Development Bank, and the United States Agency for International Development, the Government of Mongolia recapitalized Khan Bank on July 7, 2000. The bank rehabilitation program's success, extensive network of branches, increasing demand for financial services in rural areas, and the successful implementation of new credit programs began to yield positive results.

In 2003, an international tender was announced, leading to the privatization of Khan Bank. Sawada Holdings from Japan acquired 100 percent of the bank's shares, later selling 40 percent to Tavan Bogd Trade LLC. Consequently, the bank was rebranded as Khan Bank LLC in 2006.

## A New era of growth

Khan Bank has navigated many ups and downs throughout its development, emerging as Mongolia's largest bank. Today, the bank keeps pace with global advancements and innovations and incorporates cutting-edge technology localization into its strategic planning, enhancing its financial influence to drive the country's growth.

In 2023, as part of banking sector reforms, Khan Bank marked a new chapter by becoming a public company, signaling the start of its next phase of development.

With 545 branches and over 6,500 employees, the bank has established the nation's largest digital network. It delivers smart and comprehensive financial services that reach 82 percent of

Mongolian households, efficiently serving 2.9 million customers. Khan Bank's total assets have soared to 17.3 trillion MNT, with a loan portfolio of 9.7 trillion MNT and liquid assets of 15.0 trillion MNT, setting records in the domestic banking system.

Since pioneering mobile banking in 2007, Khan Bank has continually revolutionized the banking and financial sector, introducing an omnichannel platform that seamlessly integrates all electronic banking channels.

## Sustainable development policy approved

Khan Bank has rapidly advanced its green development policy in recent years, significantly contributing to global sustainability by joining the Global Compact. In 2020, the bank approved and began implementing its Sustainable Development Policy, aligning its business activities and development of new products and services with the Sustainable Development Goals.

Last year, Khan Bank secured over 270 million USD from international investors. Within the sustainable financing framework, 95 million USD was allocated to support renewable energy and energy-efficient and environmentally friendly green projects. This amount includes 60 million USD in green bonds issued in the international capital market—the first for Mongolia—and an additional 17 billion USD in green bonds raised from the domestic capital market.

Khan Bank's consistent growth, robust financial indicators, innovative projects, and success in digital banking have garnered accolades from domestic and international organizations. The bank has been named Best Bank in Mongolia nine times by The Banker magazine, thirteen times by Euromoney magazine, and a record six consecutive times by Asiamoney magazine. Additionally, it has consistently ranked among the top four in the Government of Mongolia and the Mongolian National Chamber of Commerce and Industry's TOP 100 Enterprises, securing second place in 2023.

Committed to maintaining its leading position, Khan Bank is moving forward by growing with our customers and striving to deliver the most reliable and efficient banking and financial services. ■

***Khan Bank's consistent growth, robust financial indicators, innovative projects, and success in digital banking have garnered accolades from both domestic and international organizations.***



## Golomt Bank

# Golomt Bank: Setting the world standard

**G**olomt Bank, established on March 6, 1995, by Order No. 59 of the President of the Bank of Mongolia, started with just four employees and a registered capital of MNT 436 million. Today, it comprises 20 percent of Mongolia's banking sector alone, offering comprehensive financial services based on its customer needs through over 100 branches and with over 2,500 employees nationwide, all powered by cutting-edge technology.

Operating with the "Investing for a Brighter Future" motto, Golomt Bank has been instrumental in implementing national policies and government projects. Our team is a dynamic and creative force, actively contributing to key development projects that have significantly impacted Mongolia's economic growth. Golomt Bank remains committed to supporting environmentally and socially responsible initiatives. As it joined the UNEP FI initiative, it became the first and only bank in Mongolia to adopt the "Principles for Responsible Banking." The bank aligns its operations with the Sustainable Development Goals and the "Paris Agreement's Climate Change Goals", ensuring that all its operations adhere to sustainable financing principles and environmental and social standards set by the United Nations.

Golomt Bank's vision to become "Mongolia's Global Benchmark Bank" extends beyond our main business operations. We aim to lead the sector with robust governance, set positive global standards, and implement good practices. A testament to this is we became the first in Mongolia to be rated as a bank with 'Internal audit practices in line with the international standard and Code of Ethics', which represents a new chapter of the history of Mongolia's banking and financial and internal audit sectors. This milestone highlights the bank's commitment to good governance and sustainable, long-term policy.



***Continuing its trailblazing path, the bank raised USD 300 million bonds from the international market***

## Pioneer Bank

Golomt Bank has consistently been at the forefront of technological advancements in the Mongolian banking industry. It has leveraged artificial intelligence to create automated, user-friendly banking solutions, and introduced innovative products and services. Notable milestones include launching Mongolia's first international payment card system in 1999, Internet Bank service in 2002, Smart Bank service in 2012, and SocialPay digital wallet in 2017 in the 100-year history of Mongolia's banking sector. These innovations have earned Golomt Bank the title of Pioneer multiple times, pushing both the industry and the domestic market forward.

## Open Bank

Golomt Bank is redefining modern banking with its technology-based Open Banking business model which is comprehensively utilized in its operations. We have collaborated with business organizations, government entities, and fintech companies in the digital shift and innovation field, and by sharing our knowledge, experience and infrastructure with our customers. We aim to be an open bank that creates brand new values and contributes to citizen's lives and the country's development.

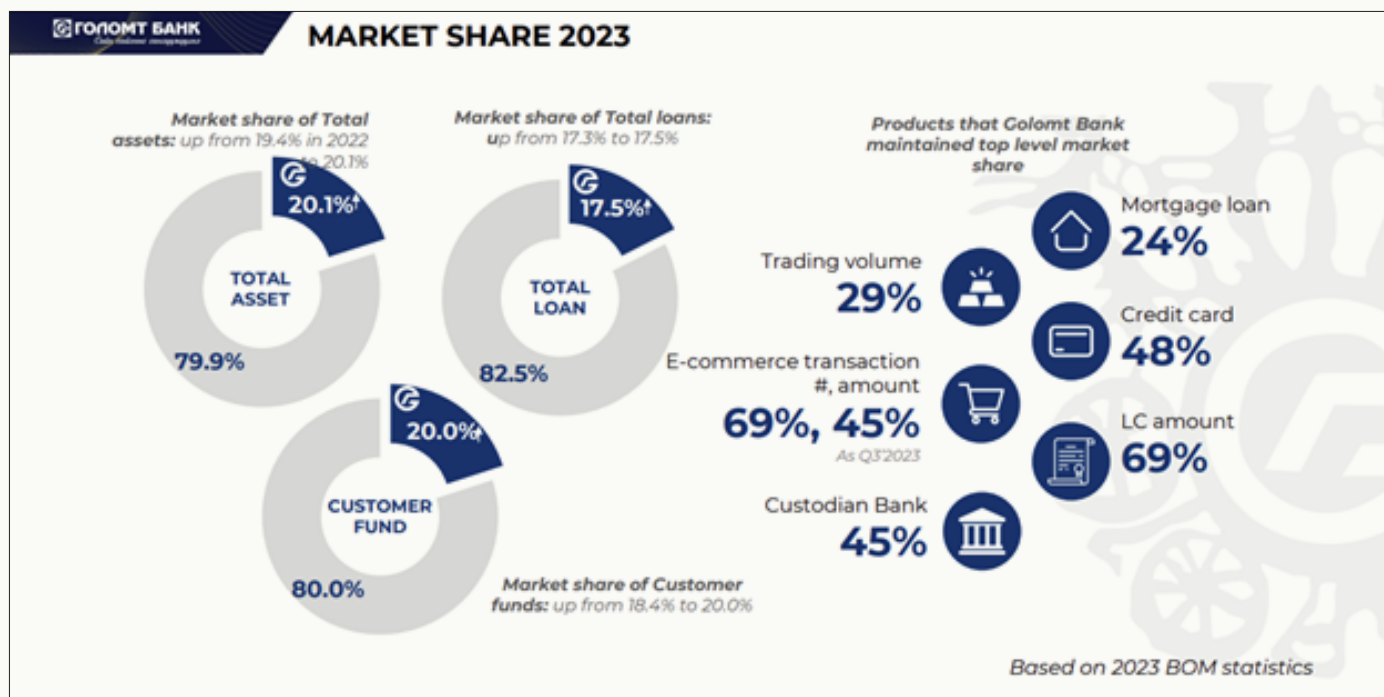
In 2022, Golomt Bank stepped into the next phase of development and transitioned to a public joint-stock company, achieving the largest IPO in the history of

- the Mongolian stock market, and raising MNT 114.4 billion in a shortest time in the course, both a great achievement. Continuing its trailblazing path, the bank raised USD 300 million bonds from the international market in 2024, reviving Mongolian commercial banks' financing activities globally for the first time in over a decade. This marked Golomt Bank became the first Mongolian commercial bank to tap the dollar bond market on a standalone basis in the last 12 years.

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### Great Place to Work

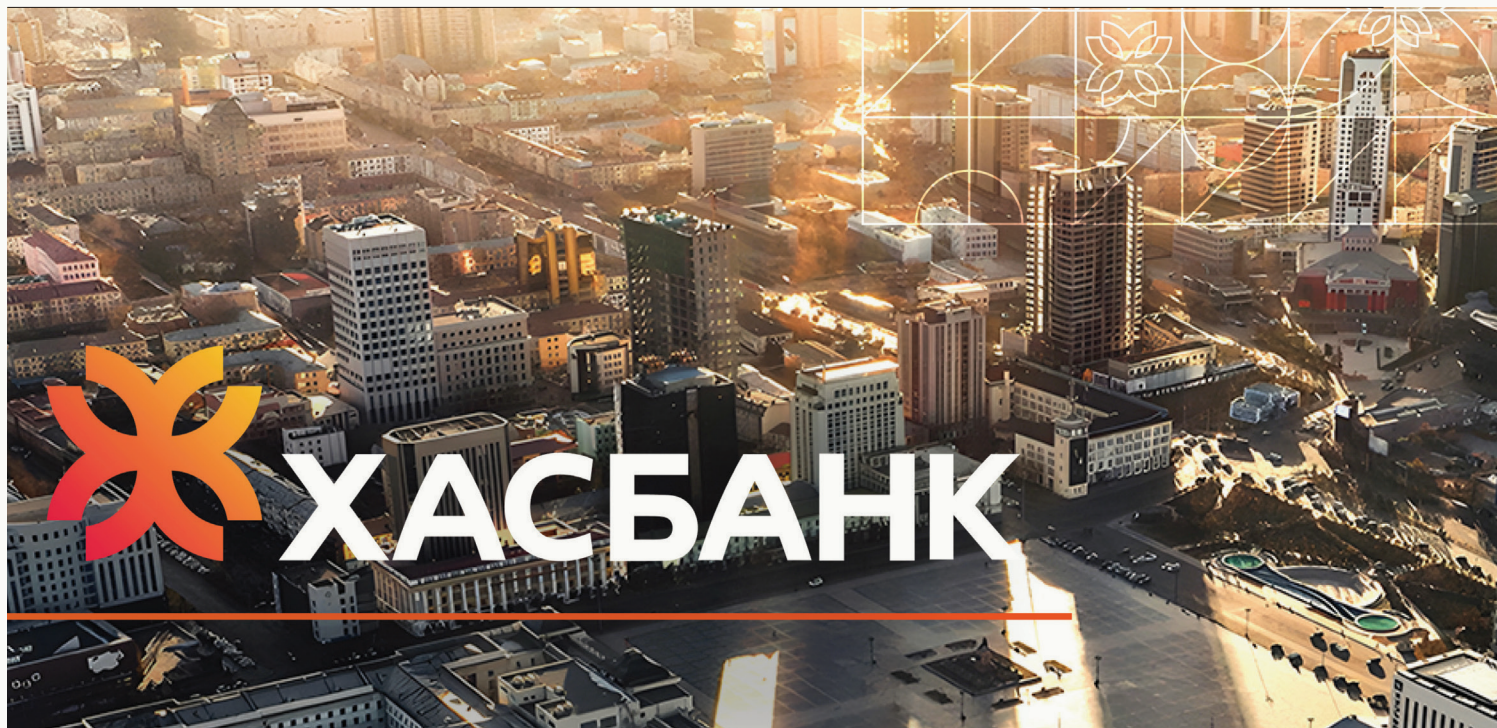
For the first time in Mongolia's banking and financial sector, Golomt Bank received "Great Place to Work" certification from the internationally recognized Great Place to Work Institute in 2022 and affirmed its results in 2023.

### "Genesis of Heritage and Culture" project

Golomt Bank initiated the archaeology project "The Genesis of Heritage and Culture" to actively support numerous archaeological projects, promote Mongolia's cultural heritage globally, develop and preserve historical and cultural monuments, and advance research initiatives. This project is carried out in co-operation with the Institute of Archaeology of the Mongolian Academy of Sciences.







**XacBank**

# XacBank: A Pioneer in good governance

In 1998, the UNDP-funded "Micro Start" project launched a transformative initiative in Mongolia with the aim of empowering local micro-businesses. This pioneering effort led to the creation of X.A.C. (Golden Development Fund or in Mongolian Хөгжлийн Алтан Сан), Mongolia's first non-banking financial institution, in 1999. This institution eventually grew and transformed into today's XacBank. Following its merger with "Goviin Ehlel" NBFI in 2001, XacBank received its commercial banking license from the Central Bank of Mongolia on December 27th, 2001.

XacBank's journey from a non-banking financial institution to a systemically important commercial banking has been pivotal in transforming Mongolia's banking landscape. The Bank entered the market with a new vision and mindset. The novelty of its vision and goals captivated the public's interest and gained massive popularity at the time of establishment.

"People, Planet, Prosperity" are the three pillars that define XacBank's vision and mission. The bank is

***As a pioneer in introducing green finance concepts and mechanisms, XacBank continues to lead the sector, earning recognition as Mongolia's green bank***

committed to supporting green and environmentally friendly businesses, offering transparent and convenient banking experience, while ensuring profit generation aligned with its mission and vision.

XacBank made a genuine contribution toward bringing a fresh angle into banking businesses in Mongolia. Over two decades ago, when green and sustainable development were scarcely considered in Mongolia, XacBank emerged as a pioneer in eco-friendly practices and became the first bank in Mongolia to be regarded as a green bank.

Today, it is almost universally understood that embracing sustainable, environmentally conscious practices in our daily lives, workplaces, and business endeavors is a must. XacBank's journey, exemplified by its foresight of strategic planning that aligns with these principles and unwavering commitment to its foundational values despite formidable challenges, is inarguably one of the defining achievements in the Mongolian Banking Sector's 100-year history.

From its modest beginnings with 7 employees and \$1 million in assets, XacBank has grown into one of Mongolia's four systematically influential commercial banks. Today, the Bank commands assets totaling over MNT 5 trillion, operates a robust network of over 70 branches, employs a workforce of 1,300, and collaborates with more than 9,000 merchants. It provides reliable





***"People, Planet, Prosperity" are the three pillars that define XacBank's vision and mission***

► financial services to more than a million customers through its digital and traditional channels.

This impressive growth is a testament to XacBank's commitment to good governance and financial inclusion. Since its founding, XacBank has focused on improving the access to financial services to individuals and micro-businesses with limited access. This philosophy has not only been upheld but expanded over the past 20 years, extending support from small enterprises to medium and large businesses. XacBank has been a vital financial bridge, and attracting approximately \$1.5 billion (MNT 4.3 trillion) of foreign funding into Mongolia. These funds have provided affordable interest, low-collateral loans, boosting micro, small, and medium-sized enterprises, increasing employment, and enhancing economic development across the country.

XacBank is renowned for its robust governance and diverse shareholder base, which includes the Mongolyn Alt Corporation (MAK), the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the National Bank of Canada, ORIX Corporation, RONOC, and Mongolian Opportunity Fund. It is evident that the Bank has a diverse shareholder base and high governance standards, which have fostered steady growth and earned customer trust over the years.

As part of its initiative to comply with the Amendment Law of Banking Law of Mongolia, XacBank successfully listed the Bank on the Mongolian Stock Exchange through IPO in 2023, transitioning to a listed public company. Over 10,000 individuals and entities, previously customers and employees of XacBank, become shareholders of the Bank.

XacBank proudly stands as Mongolia's first eco-bank, distinguished by its green eco-bank label. As a pioneer in introducing green finance concepts and mechanisms, XacBank continues to lead the sector, earning recognition as Mongolia's green bank on the international financial stage. In 2007, XacBank joined the United Nations Global Compact to implement the principles of environmentally friendly and healthy social development, while demonstrating its commitment to not financing environmentally harmful businesses through eco-banking.

In 2016, XacBank achieved another milestone by being selected as the National Implementing Agency accredited by the United Nations' Green Climate Fund (GCF). The fund serves as the primary financing mechanism from developed to developing countries for climate change adaptation and mitigation under the United Nations Framework Convention on Climate Change (UNFCCC). XacBank was not only the first accredited commercial bank in Mongolia to receive GCF accreditation but also the first private sector organization among developing countries to do so. After an initial five-year accreditation, the Bank was re-accredited in 2022.

XacBank's efforts to promote energy efficiency, connect customers with suppliers, and provide green financing have yielded significant environmental benefits. Over the past decade, the initiatives have reduced greenhouse gas emissions by a total of 2.5 million tons. To put this into perspective, the reduction is equivalent to planting 183 million trees and nurturing them for ten years—an area 1.6 times larger than Ulaanbaatar if 300 trees are planted per hectare. Beyond these tangible results, XacBank's initiatives foster a positive attitude and mindset toward sustainability in the community.

Looking ahead, XacBank remains committed to its customer-centric approach, integrating customer protection principles into its operations and offering socially and environmentally friendly banking services. By doing so, it continues to drive positive changes in citizens' lives through the sustainable development of the real economy. ■

## State Bank

# U.Gantur: The Government of Mongolia designated the State Bank as the leading national bank supporting the middle class

*In celebration of the 100th anniversary of the modern banking sector in Mongolia, we conducted an exclusive interview with U.Gantur, CEO of the State Bank.*

-This year marks the 100th anniversary of the establishment of the banking sector in Mongolia. With your extensive experience in the sector, particularly with the Bank of Mongolia, what are your thoughts on this momentous occasion?

-First of all, I would like to congratulate the readers of your magazine, the generations of banking sector employees, and the bankers on the 100th anniversary of the banking system in Mongolia.

As for me, I entered the banking sector in 1996, starting as a specialist at a commercial bank, and then as an auditor at the Bank of Mongolia's Supervision department in 1999 thus entering the banking sector. I am extremely proud to have spent 17 years at the Bank of Mongolia, working to ensure the stability of our banking system. During this time, I played a role in implementing banking legislation, the state Monetary policy, and the rules and regulations issued by the Bank of Mongolia. My efforts contributed to the stable operation of commercial banks, the prevention of potential risks, and the protection of customer and depositor interests.

Furthermore, as the CEO of the State Bank, our team aim to leverage advanced technology to deliver comprehensive financial services that are eco-friendly, socially responsible, transparent, and well-governed. On top of that, our goal is to support and enrich the middle class, always aligning our services with customer demand.

**-The State Bank is the only state-owned bank. The Bank is celebrating its 15th anniversary this year. How would you evaluate the role and contribution of the State Bank to Mongolia's development and economy over the years?**



**State Bank has played a crucial role in preserving approximately 25,000 jobs**

-The State Bank was established in 2009 to protect the interests of customers and depositors and ensure the stability of the banking system. At its establishment, the bank operated with 174 billion MNT in assets and 28 billion MNT in equity capital. By July 2013, it had expanded to become a national bank with branches in all 21 provinces, soums, and districts. Today, the State Bank is one of the most influential banks in Mongolia, boasting 500 branches, over 4,000 employees, and serving 2.3 million customers.

In 2022, the Government of Mongolia designated the State Bank as the leading national bank supporting the middle class. To align with this vision, we approved a comprehensive plan reflecting our business objectives. For instance, more than 90% of our clients and 80% of our borrowers are citizens. In this sense, the State Bank truly is the bank of the Mongolian people.

As of the first quarter of 2024, the State Bank boasts 4.9 trillion MNT in assets and 599.5 billion MNT in equity capital. The banking sector plays a leading role in Mongolia's development by strictly adhering to legal obligations, paying taxes on time, ►

► creating jobs, leading in sustainable development, and implementing social responsibility initiatives. Following the 2022 amendments to the Banking Law, systemically influential banks transitioned to open joint-stock companies. The State Bank has embraced this change, becoming a public open bank and setting a precedent for other commercial banks.

Over the past 15 years since its inception, the State Bank has played a pivotal role in both society and the economy, diligently implementing government directives, meeting tax obligations punctually, and ensuring accurate financial reporting. Last year alone, our bank contributed more than 32.4 billion MNT in taxes to the state budget.

In the broader context of our impact on the banking sector, we've positioned ourselves as leaders across various economic, societal, and environmental fronts by actively participating in international initiatives and proposals. This comprehensive approach allows us to align with global standards and contribute significantly to Mongolia's development.

**-It can be said that the most significant impacts of establishing the State Bank became evident during the Covid-19 pandemic. Please share your experiences during those challenging times.**

-During the COVID-19 pandemic from 2020 to 2022, we encountered numerous challenges that required us to navigate with minimal health and economic impact. In response to the emergency, the Parliament and the Government rolled out the "10 Trillion comprehensive plan for health protection and economic recovery". This plan encompassed various initiatives, including Employment Support Loans, Agriculture Support Loans, Home Mortgage Loans, and Repo Trade Funded Loans, which were distributed through commercial banks, with the State Bank taking the lead.

As a result, over 700 billion MNT in

loans were granted to 18,000 citizens and enterprises, which helped save 175,000 jobs. It should be noted that the State Bank has played a crucial role in preserving approximately 25,000 jobs. Additionally, during the pandemic, our team led the way in strictly adhering to infection protection protocols in our services, setting a standard for other banks to follow.

The State Bank regularly supports government projects. Since 2013, it has issued mortgage loans as part of the housing price stabilization sub-program to support the construction industry. How is this initiative progressing?

**-The State Bank regularly supports government projects. Mortgage loans have been issued since 2013 as part of the housing price stabilization sub-program to support the construction industry. Could you provide an update on the progress of this initiative?**

-The State Bank has consistently supported government projects, acting as a bridge between the citizens and the Government of Mongolia. Since 2013, we have issued mortgage loans under the sub-program "Supporting the construction sector and stabilizing housing prices." With the adoption of the National Wealth Fund law, the Government opened a Savings fund account at the Bank of Mongolia. This account will be used for health, education, and housing, and the resources collected will be aimed at increasing housing program financing. This initiative will allow us to address the demands of citizens seeking mortgage loans.

Since the beginning of 2024, the State Bank has granted 196.5 billion MNT in mortgage loans to 1,550 citizens in Ulaanbaatar and other localities. Looking ahead, we aim to allocate more resources to rural communities to reduce centralization and support middle-income citizens.

**-Systemically important banks have issued shares on the stock exchange,**

**and the State Bank has successfully implemented this process. Can you share the results and significance of this initiative?**

-In 2022, the State Bank became a joint-stock company, leading other banks, and successfully raised 25.4 billion MNT, three times better than expected, the first time such achievement occurred in the Mongolian stock market history. Now the bank has 7,421 shareholders who own 5.71 percent of the bank's total shares. We consider this achievement reflects the public's trust and positive assessment of our employees' work. The banking sector is based on the transparency and trust of its customers, and in 2023, State Bank made a profit of 94.8 billion MNT. Over the past three years, our total assets have grown by an average of 15.9 percent annually and our financial indicators continue to improve year by year. I think these are the biggest results of our team.

**-What is the State Bank's strategic plan for sustainable development?**

-Since 2015, the State Bank joined the Mongolian Sustainable Finance Association and has actively engaged with its projects, aligning our operations with the 17 Sustainable Development Goals. This commitment began with the adoption of environmental and social risk assessments. To further enhance our focus on sustainable practices, we established a new "Sustainable Development Committee" and "Sustainable Development Office" within the bank. We expanded the Sustainable Development Working Group to ensure comprehensive implementation of these initiatives across all levels of our organization. Our long-term sustainable development objective is to allocate 10 percent of our total loan portfolio to sustainable development initiatives that support environmentally and socially responsible activities, minimize negative impacts, and foster robust governance practices by 2030. ■



## Capitron Bank

# Pioneering a new era of value creation

Capitron Bank keeps a leading position in innovation and progress in the rapidly evolving and developing Mongolia's banking sector. It became a pioneer in introducing internet banking, telephone banking, and SMS banking services in Mongolia. Capitron Bank was founded in 2001, commencing its operations with a modest registered capital of MNT 3 billion MNT and with a team comprising 17 employees. Since its establishment, the Bank has recorded a stable growth, conducting activities with the vision of creating value of the new era.

Currently, Capitron Bank provides banking and financial services to its customers through its 60 branches in Ulaanbaatar and six aimags, supported by a dedicated workforce of more than 600 qualified employees.

The Bank's strong financial performance reflects its growth as total assets reached MNT 2.3 trillion and registered capital generated to MNT100 billion. Besides, Capitron Bank has been always meeting the stringent requirements and prudential ratios set by the Bank of Mongolia.

Capitron Bank's journey has been marked by several significant milestones that underscored its spirit of innovation. In 2005, as Mongolia embraced the internet, Capitron Bank introduced an online network in the head office and local branches that facilitated integration of its management system and enhancement of the operational efficiency and customers service. The acquisition of Inter Bank in 2006 was marked as a historical event that indicated the first voluntary incorporation of two banks in Mongolia.

In 2012, Capitron Bank became the first bank issued a national currency MNT card, broadening its electronic banking services. The introduction of Most Money integrated payment network and development of electronic banking services solidified the Bank's leading position in digital banking. The Bank's commitment to innovation was assured with offering VISA cards in 2013 and



**Beyond its financial achievements, Capitron Bank has demonstrated a strong commitment to social responsibility and sustainable development**

launching the transparent Glass Account in 2019, which is used for charitable donations and social campaigns, greatly appreciated by the customers.

Beyond its financial achievements, Capitron Bank has demonstrated a strong commitment to social responsibility and sustainable development. The Bank pays taxes on timely basis and contributes to generation of the state budget, providing stable working places and social benefits for its 600 employees. The Bank's achievements were recognized by the Government of Mongolia and the ►

- Mongolian National Chamber of Commerce and Industry. Capitron Bank has been named as one of the top 100 enterprises for seven consecutive years that reflected its stable operations, advanced digital services, and contributions to the development of the national economy.

In 2015-2016, significant changes occurred in the Bank's Shareholders structure, Board of Directors, and executive management, which enhanced the corporate governance and improved the competitiveness. These advancements have been instrumental in shaping the Bank's current success and ensuring robust organizational management and control systems.

Capitron Bank is dedicated to sustainable development, it became a member of the Sustainable Finance Association (SAF) and adopted its Sustainable Financing Policy in 2019. The Bank supports green business initiatives, offers loans for greywater equipment to promote water conservation, and within the framework of its activities, contributes into the implementation of the 17 Sustainable Development Goals. These efforts highlight Capitron Bank's role as a leader

in environmental protection and corporate social responsibility.

In order to promote sustainable development, the Bank provides green business and consumer loans to support individuals and businesses that contribute to reducing greenhouse gas emissions.

Moreover, greywater equipment loans to high water consumption businesses facilitate the purchase of equipment aimed at conserving clean water and promoting water reuse.

In addition, within the Bank we adhere to the 17 Sustainable Development Goals by fostering an eco-friendly workplace environment. This includes initiatives to reduce paper, water, and energy consumption, enhance organizational governance, and promote gender equality and equal rights.

Capitron Bank's core values such as "Speed, Responsibility, Continuous Growth, and Customer-centered Services" underscore its commitment to providing reliable, prompt and customer-friendly financial services. The Bank focuses on and respects its customers, adopts a future-oriented approach in its activities verifying itself as a reliable and innovative institution in Mongolia's banking sector. ■

