



MONETARY POLICY STATEMENT

Increasing the policy rate and the reserve requirement on domestic currency liabilities, modifying financing conditions of long-term repo

No: 2022/01

Date: January 28, 2022

The Monetary Policy Committee (MPC) of the Bank of Mongolia held an unscheduled meeting on January 28, 2022. Taking into consideration the current state of the economy and financial markets as well as outlook and risks to the domestic and foreign economic environment, the MPC decided to:

1. Increase the policy rate by 0.5 percentage point to 6.5 percent;
2. Raise the reserve requirement on liabilities in domestic currency by 2 percentage points to 8 percent;
3. Modify financing conditions of long-term repo issued to non-mining exports and manufacturing sectors.

Outlook for global economic growth has been revised downwards mainly due to the intense spread of Omicron variant of COVID-19, while cost-push inflation has been surging in many countries owing to prevailing transportation & logistical restrictions and supply chain disruptions. Prices of imported goods have also risen in our country given the continued transportation restrictions in foreign trade. Escalation in prices of meat, vegetable, fuel and imported goods have caused price increases in other products and services higher than expectations. Annual headline inflation reached 13.4 percent nationwide and 14.8 percent in Ulaanbaatar city as of December 2021. Demand-driven inflation outlook remains as gradually increasing at a rate consistent with recovery in economic activities, while outlook for supply-driven inflation will be mainly dependent on the time frame to resolve border restrictions as well as transportation and logistical disruptions.

The series of monetary and macro-prudential policy measures as well as financial regulatory instruments implemented with the purpose of alleviating negative economic impact stemming from the pandemic has been effective in supporting economic recovery and ensuring financial stability. Though indicators in mining and transportation sectors undermined expectations in the last 2 months of 2021, indices for manufacturing, trade and services' sectors exceeded expectations mostly owing to easing of business restrictions and expansion in domestic demand.

Monetary policy stance is being tightened, taking into consideration risks of higher inflation expectations and intensifying second-round effects of inflation that could be caused by continued supply disruptions resulting from restrictions at the border. Moreover, outlook for higher base rate in foreign markets has facilitated an increase in domestic policy rate.

The Bank of Mongolia will adjust its monetary policy stance in a timely manner in accordance with the developments of economic recovery and inflation outlook.

Extracts of the meeting minutes will be released in two weeks on the Bank of Mongolia's website.

MONETARY POLICY COMMITTEE