



MONETARY POLICY STATEMENT

Keeping the policy rate unchanged, decreasing the reserve requirement on liabilities in foreign currency and changes to the regulation on consumer loans

No: 2024/03

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The Monetary Policy Committee (MPC) of the Bank of Mongolia held its scheduled meetings on June 25th and July 2nd, 2024. Considering the current state of the economy, banking and financial markets, and the risks from external economic environments, the MPC decided to:

1. Keep the policy rate unchanged at 11 percent;
2. Decrease the reserve requirement on liabilities in foreign currency by 3 percentage points to 15 percent;
3. Implement the following changes in the regulation of macroprudential policy for consumer loans:
 - i. Lower the Debt-Service-to-Income (DSTI) limit for newly issued or restructured consumer loans by banks to 55 percent,
 - ii. Exclude banks' newly issued credit card loans with amounts lower than minimum subsistence level from DSTI restrictions,
 - iii. Exclude banks' loans for funding higher education tuition (student loans) from DSTI and maturity limits, provided they comply with the prerequisite requirements.

As of May 2024, annual inflation reached 5.7 percent nationwide and 5.6 percent in Ulaanbaatar city. The tight monetary policy has effectively contributed to reducing inflation. Moreover, inflation has declined gradually due to several factors: reduced inflation rates among our trading partners, a continued deceleration in the inflation of imported goods amid a stabilized exchange rate, and a slowdown in the growth of domestic food prices. Inflation is expected to remain within the target range.

Economic growth reached 7.8 percent in the first quarter of 2024, exceeding expectations. The mining sector has accelerated due to increased coal exports, while activity in the non-mining sector has risen following the expansion of domestic demand expansion and increased household and government consumption. However, agricultural production is projected to shrink due to worse-than anticipated 'dzud' conditions, which will negatively impact overall economic growth.

Although the outlook for global economic growth has improved, fundamental risks related to geopolitical tensions and inter-state conflicts remain. Considering these risks of external and internal environment and the inflation outlook, the MPC decided to keep the policy rate unchanged.

High risk-free interest rates in international markets and the current high rate of reserve requirements for foreign currency liabilities have been increasing funding costs for banks. Therefore, a decision was made to decrease the reserve requirement on liabilities in foreign currency.

As nominal wages and incomes increase, consumer loans have risen significantly, contributing to systemic risk build-up. To mitigate this risk, the Committee decided to tighten the DSTI limit for newly issued or restructured consumer loans. However, to promote efficient resource allocation, financial inclusion, and financial product development, the Committee also decided to exclude low-amount credit card loans and higher education tuition loans from DSTI limitations.

These policy decisions are consistent with the objective of stabilizing inflation at the target level and ensuring macroeconomic and financial stability in the medium term. Subsequent policy actions will be contingent upon changes in the external and internal economic environment and the inflation outlook.

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

MONETARY POLICY COMMITTEE