



MONETARY POLICY STATEMENT

Increasing the policy rate and adjustments to regulations on consumer and pension loans

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The Monetary Policy Committee (MPC) of the Bank of Mongolia held its scheduled meetings on March 6th and 7th, 2025. Considering the current state of the macroeconomy, banking sector, and financial markets, as well as the global economic outlook and risks, the MPC decided to:

1. Increase the policy rate by 2 percentage points to 12 percent;
2. Reset the upper limit of the debt service-to-income (DSTI) ratio at 50 percent for banks' newly issued and restructured consumer loans;
3. For loans secured by pension and benefit income, the borrower's remaining income after paying the monthly loan installments shall be no less than the minimum subsistence level.

Annual inflation continued to rise, reaching 9.6 percent nationwide and 9.7 percent in Ulaanbaatar as of January 2025. The increase in electricity price and its indirect effects, as well as the price increases in services, rent, and imported goods, reflecting the strong economic activity and wage growth, were greater than expected. The inflation forecast, thus, has been revised upward, accounting for both demand- and cost-driven factors, and rising prices for public transport and other administered goods and services. As a result, inflation is projected to remain above the Bank of Mongolia's target range throughout this year. If upcoming mega projects are financed through domestic sources, heightened pressures on the balance of payments and the exchange rate could further accelerate inflation.

The economy expanded by 4.9 percent in 2024, primarily driven by strong growth in the trade and services sector, which are closely influenced by domestic demand, alongside the subsequent increase in net tax. Economic growth in 2025 is expected to be supported by a recovery in the agricultural sector, an increase in mining activity given the expansion of copper production, fiscal expansion as well as upcoming construction works related to large-scale infrastructure projects.

In the external environment, geopolitical tensions and uncertainty surrounding U.S. trade and tax policies are expected to weaken foreign demand and slow the anticipated decline in foreign interest rates. Additionally, expectations for steel demand may deteriorate the prices of key export commodities like coal and iron ore.

The growth of consumer loans in the banking sector has increased in line with the growth of household income and wages. While this stimulates consumption imports and domestic demand, it also risks household financial vulnerability and further accumulates risks to financial sector stability.

The set of monetary and macroprudential policy decisions aligns with the Bank of Mongolia's objective of stabilizing inflation at 5 percent within a ± 2 percentage point range by 2027, while mitigating the risk of rising inflation expectations and persistent second-round effects and supporting macroeconomic and financial sector stability in the medium term.

The Bank of Mongolia's subsequent policy actions will depend on the developments in the external and domestic economic environment, along with the outlooks for inflation and economic growth.

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

MONETARY POLICY COMMITTEE