



MONETARY POLICY STATEMENT

Reducing the policy rate, increasing the reserve requirement on domestic currency liabilities, expanding the policy rate corridor, and amending the liabilities subjected to calculations of reserve requirements

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The Monetary Policy Committee (MPC) of the Bank of Mongolia held its scheduled meetings on September 10th and 13th, 2024. With consideration of the current state of the macroeconomy, banking and financial markets, and the risks regarding the external environments, the MPC decided to:

1. Reduce the policy rate by 1 percentage point to 10 percent;
2. Increase the reserve requirement on the liabilities in domestic currency by 2 percentage points to 10 percent;
3. Expand the policy rate corridor to be set at 2 percentage points above and below the policy rate;
4. Annulling the decision related to the exclusion of certain types of reserve requirement liabilities.

Annual inflation reached 6.5 percent nationwide and 6.2 percent in Ulaanbaatar as of August 2024. Given the accelerated economic activity, prices of domestic and imported goods as well as educational services have increased higher than expected. While the budget amendment is expected to exert increased domestic demand, the inflation rate is anticipated to stabilize within the target range as the monetary policy stance remains tight with the exchange rate remaining relatively stable and foreign inflation rates low. Nevertheless, there are risks of higher inflation and balance of payment pressures if the budget proposal gets approved and the investments for large infrastructures cannot be financed through external sources.

The economy grew by 5.6 percent in the first half of 2024. The higher growth in the mining and transportation sectors along with the increase in household and public consumption and accelerated activities in sectors other than agriculture fueled the overall economic growth. The growth is projected to remain strong, driven by increased coal exports and fiscal expansion.

The underlying risks from geopolitical tensions and conflicts between nations persist. The prices of coal and iron ore are expected to decline, while gold and copper prices are to remain high amid the green transition and the ongoing geopolitical risks and uncertainties.

With the inflation rate expected to stabilize within the target range, the MPC has decided to decrease the policy rate by one percentage point in order to ease the financial condition and support stable economic growth in the medium term.

The acceleration of total credit growth in the banking sector has been stimulating the domestic demand and imports for consumption, amplifying the risks in the financial sector. To prevent excessive credit growth and to ensure financial stability, the MPC has also decided to increase the reserve requirement on domestic currency liabilities of banks, bringing it up to 10 percent.

Moreover, in the state of increasing credit growth, the current narrow policy rate corridor adversely affects the money market activity and constrains the number of deals. Thus, the decision has been made to adjust the width of the corridor to set between 2 percentage points above and below the policy rate.

These policy decisions are consistent with the objectives of stabilizing inflation at the target level and ensuring macroeconomic and financial stability in the medium term. Subsequent policy actions will depend on the changes in the external and domestic economic environment as well as 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