



N. Zoljargal

Sustainable vision

OBG talks to N. Zoljargal, Governor, Bank of Mongolia (BoM)

To what extent is there a risk of overheating in the economy, and what measures are being taken to protect from inflationary pressures in 2013?

ZOLJARGAL: Asia has been a core engine of global economic growth, and Mongolia has displayed some of the region's strongest prospects. Mongolia's real GDP grew by over 17% in 2011 and the economy has expanded by about 16% per quarter since 2011, largely thanks to the services, industry and construction sectors, as well as net taxes on products. Mongolia has been seeing stabilising macroeconomic and financial indicators, more foreign direct investment and a greater market for its exports, all of which indicate positive prospects in the medium and long terms.

Nevertheless, fiscal sustainability, discipline and counter-cyclicality are crucial for mitigating not only overheating risks, but also overall macroeconomic risk exposure, like inflationary pressure in 2013 and onwards. This can be achieved by adhering to the Fiscal Stability Law and maintaining budget rules and requirements. Additionally, the BoM has prevented economic overheating risks and demand-pull inflationary pressure via monetary policy instruments and prudential measures.

How do you balance the need of targeting inflation and supporting economic growth?

ZOLJARGAL: A core mechanism for maintaining long-term growth is targeting the main components of inflation to ensure that it remains low and stable. The BoM aims for a target inflation rate of 8% by the end of 2013 and 5-7% for 2014-15. To achieve this, we have been implementing a medium-term integrated policy on price stabilisation of the main consumer goods to prevent supply shocks, abolish structural distortions and alleviate crowding-out effects.

The initiative consists of sub-programmes, including stabilisation of food and retail gasoline prices, reducing the costs of the main imported consumer goods, as well as supporting the construction industry and stabilising housing prices. Ultimately, supply-side or cost-

push inflation will be significantly reduced as a result of successful implementation of these programmes. The BoM has been carrying out more proactive, targeted and immediate measures to tackle inflation to maintain macro stability and support economic growth.

What does the central bank hope to achieve from its auction of government bonds?

ZOLJARGAL: The BoM and the Ministry of Finance have agreed and signed onto a procedure of issuing and trading treasury bills, notes and bonds. The state has issued over MNT270bn (\$189m) of treasury bills in the domestic market, with weighted average interest rate of 13.07% since December 5, 2012, and will continue to issue them in 2013.

This measure has a number of notable aims, such as developing primary and secondary markets for government securities, setting a tugrik benchmark yield curve in the domestic market, strengthening fiscal and monetary policy coordination, using treasury bills as an instrument to manage overall liquidity condition, developing new financial instruments, financing public investment programmes and so forth.

What is the objective behind the BoM's proposal to raise the minimum capital requirement?

ZOLJARGAL: In line with our vision for sustainable economic growth, the BoM aims to strengthen local banks by increasing competitiveness and efficiency, decreasing systemic risks and improving inclusiveness, accessibility, sufficiency and the quality of products and services. As such, the BoM issued an order in July 2011 requiring domestic banks to increase their minimum equity funds to MNT16bn (\$11.2m) by May 2013. This is a mandatory requirement that most banks have already fulfilled, with the remainder expected to meet the standard via increased net profits, mergers and acquisitions, and attracting foreign investments. Overall, this measure will benefit the development of the financial markets and financial stability in Mongolia.