



MONETARY POLICY STATEMENT

Lowering the policy rate, restructuring and extending the maturity of herders' loans

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The Monetary Policy Committee (MPC) of the Bank of Mongolia held its scheduled meetings on March 14th and 15th, 2024. Considering the current state of the economy, banking and financial markets, and the risks of external economic environments, the MPC decided to:

- 1) Lower the policy rate by 1.0 percentage point to 12.0 percent; and
- 2) Authorize commercial banks to restructure and extend the loan maturity term for herders experiencing difficulties in their loan repayments.

In February 2024, the annual inflation reached 7.0 percent nationwide and 7.2 percent in Ulaanbaatar. The deceleration in inflation is attributable to several factors, encompassing the beneficial effects of implemented monetary policy measures, decreasing inflation in trading partners, and the strengthening of the MNT exchange rate against foreign currencies. Inflation is expected to gradually decrease, thereby projected to remain within the upper boundary of the central bank's target range. However, besides the ongoing high inflation observed in food products, there is a risk of inflationary pressures stemming from domestic factors such as rising wages and pensions, cash distribution, and livestock loss exacerbated by heavy snowfall, commonly referred to as "dzud".

Economic growth reached 7.0 percent in 2023, driven primarily by heightened coal exports and increased activity in the mining and its related sectors. However, adverse weather conditions during the winter months are expected to cause a contraction in the agriculture sector's growth this year, posing a downside risk to the overall economic growth.

Despite the upward revision in the global economic growth outlook, there is a potential for certain commodity prices, like coal and iron ore, to decrease due to China's growth slowdown.

Anticipating a gradual decline in inflation and its stabilization within the target range, the MPC decided to reduce the policy rate by 1.0 percentage point to ease financing conditions and ensure economic stability in the medium term. Furthermore, considering the potential risk of default on herders' loan repayments and solvency issues arising from severe winter and spring weather in rural areas, the decision to restructure and extend loan maturities aims to ensure financial system stability and alleviate challenges in the livestock industry.

Subsequent policy actions will be contingent upon changes in the external and domestic inflation outlooks.

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

MONETARY POLICY COMMITTEE