

Monetary Policy Guidelines for 2008

Monetary policy will aim at maintaining sustained low inflation rates over the medium term and fostering the structure and infrastructure of the financial market conducive to ensuring sustainability of the financial market and banking sector, boosting efficiency of monetary policy, and enhancing sustainable economic growth. The Bank of Mongolia will adopt policy decisions independently within general monetary policy guidelines. This policy will preserve monetary policy traditions, reflect market developments as they take place, and be implemented consistent with medium-term objectives.

1. Monetary policy

1.1. The main objective of monetary policy is to maintain inflation measured in CPI at an annual average of 6.0 % over the years of 2008-2010.

1.2. In implementing monetary policy, innovative approaches, widely accepted internationally, will be applied sequentially consistent with the country's economic development trend. The policy implementation will be as sustainable as possible and enhance the conditions for better efficiency, transparency, and effectiveness.

1.3. By improving management of official international reserves and ensuring safety thereof, policy will aim at enhancing foreign solvency, maintaining the reserves at a level to cover not less than 30 weeks of imports, and ensuring appropriate composition, location, risk and return.

1.4. Importance will be attached to strengthening the market framework for setting the exchange rate of the Togrog against foreign currencies, increasing efficiency of the market information and trading framework, maintaining the Togrog exchange rate at a level consistent with long-term macroeconomic objectives. The exchange rate of the Togrog against foreign currencies will be set flexibly by market demand and supply forces, and the BOM's involvement will be limited to smoothing abrupt short-term fluctuations.

1.5 Credit bureau operations will be improved, the scope of balance of payments information broadened, and a report on international investment position released.

1.6 Monetary policy will be focused on increasing investment in line with the country's economic development strategy, achieve increased long-term lending and a reduction in long-term lending rates.

2. Efficiency of the financial sector

2.1. For the purpose of improving integrated management and supervision of the financial sector, consistency of activities of the MOF, FRC, and BOM will be enhanced, and the legal environment for activities of the Financial Stability Council will be officially recognized.

2.2. In addition to measures to conduct a comprehensive analysis and assessment of new products and services in the financial sector, independent international specialized institutions will be requested to conduct the assessment as well.

2.3. A legal and infrastructure environment essential for delivering financial products in a comprehensive manner and consistent with the needs and demands of individuals and enterprises and ensuring that services of banking institutions facilitate business activities, will be improved. In addition to conducting training and surveys, disseminating findings thereof to the public, and enriching information for customers, a possibility for development of comprehensive products will be established by broadening the scope of basic financial intermediation services.

2.4. Prudently meet the need to conduct consolidated supervision of banking and financial institutions as opportunities for delivering comprehensive banking and financial services are created.

2.5. A medium-term plan for further improving the national payments system, ensuring its uninterrupted and reliable operation, introducing innovative modalities of payments, providing essential hardware and software, reducing cash payments, and building on advantages of non-cash payment instruments will be outlined jointly with the Government and implemented in phases.

2.6. For the purpose of improving the regulatory environment for development of the secondary mortgage market and increasing access to mortgage loans, in collaboration with the Government, actions will be taken to raise funds from international markets for low-interest loans secured with real estate collateral.

2.7. A regulatory framework for deposit insurance to protect depositors' interests will be established.

3. Activities of the BOM

3.1. Actions will be taken not only to strengthen BOM's operational independence and transparency, but also to scale up its public responsibility. Within this framework, great emphasis will be placed on boosting up risk management of the BOM, rationalizing public and market relations, and upgrading knowledge and education of the public regarding central bank activities. Relevant laws and regulations will be revised to improve BOM's operational independence, transparency, and openness and oversight on management and internal audit of commercial banks.

3.2. A legal framework for improving the access to and reliability and efficiency of banking services will be enhanced. The BOM will step up measures to combat money-laundering and terrorism financing and collaborate with international organizations in this area.

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