

## **Monetary Policy Guidelines for 2009**

*Annex to Parliament Resolution No. 31 of  
2008*

### **Monetary Policy Guidelines for 2009**

Monetary policy will aim at protecting the livelihood of the society by reducing inflation to sustained low rates over the medium term, enhancing real economic growth, ensuring sustainability of the financial market and banking sector, and boosting efficiency of monetary policy. It will also foster the structure and infrastructure of the financial market. The Bank of Mongolia (BOM) will independently implement its decisions to reduce inflation while ensuring coordinated actions with respect to monetary and fiscal policies. Monetary policy will preserve Mongolia's policy traditions, reflect market developments as they take place, and be implemented consistent with medium-term objectives.

#### **1. Monetary policy**

- 1.1. CPI inflation will be maintained at a single-digit level and monetary policy will also aim at enhancing economic growth.
- 1.2. Efficiency of monetary policy will be improved and transparency be enhanced while ensuring that monetary and fiscal policies are coordinated with the aim to lower inflation, protect the welfare of people, and enhance real economic growth.
- 1.3. The Togrog exchange rate will be set in a realistic and flexible manner by market demand and supply forces.
- 1.4. Efficiency of the domestic forex market will be improved through better information coverage, access, and transparency and provision of effective infrastructure.
- 1.5. In managing official international reserves, the return on reserves will be boosted while ensuring safety and liquidity and the reserves will be maintained at a level sufficient for at least 17.7 weeks of imports.
- 1.6. The BOM will establish the practice of using financial derivatives for price risk management by making projections of future prices of key export commodities and import goods such as gold, copper, and petroleum, and building a capacity to do the forecasts.
- 1.7. Given the importance of gold sold to the BOM with respect to the balance of payments, budget revenue, and level of foreign reserves, measures to ensure that gold miners sell all their outputs to the BOM will be undertaken in collaboration with relevant authorities and in line with laws and regulations.

## **2. Ensuring stability and improving efficiency of the financial sector**

- 2.1. The BOM will pursue a policy of protecting stability of the banking sector.
- 2.2. The BOM will continue to take measures to enhance the legal setting and infrastructure necessary for the support of business operations by banking services and the provision of comprehensive financial products and services that effectively meet needs of individuals and enterprises.
- 2.3. The BOM's activities in the area of protecting interests of bank clients, depositors, and customers, improving the fairness, transparency, and clarity of services of banking institutions, and enforcing codes of conduct of bank employees will be expanded.
- 2.4. By fully implementing key principles of bank supervision, issued by the Basel Committee on Banking Supervision of the Bank for International Settlements, the BOM will provide support to, and assess and limit risks of, Mongolian banks and financial institutions in their efforts to access international markets, mobilize cheap long-term funds, and expand their operations.
- 2.5. Transparency of the financial market will be improved through combined application and further improvement of risk-based prudential ratios and financial discipline.
- 2.6. The legal reform of the banking sector will be continued in the area of creating an environment for investment banking operations and introducing deposit insurance.
- 2.7. The legal environment for primary and secondary mortgage markets will be enhanced to facilitate activities in the market.
- 2.8. The legal environment for the payment and settlement system of Mongolia will be improved, innovative technologies for controlling operations of the payment and settlement system and ensuring safety and timeliness of the system will be introduced, and the application of non-cash payment options will be increased.
- 2.9. Comprehensive audits and supervision of IT operations of the central bank and banking sector will be launched, and monitoring the compliance with a requirement to maintain a back-up plan and back-up center to ensure uninterrupted business operations of the Clearing House, Treasury, and banks will be improved.
- 2.10. A legal framework for deposit insurance, aiming at protecting depositors' interests, and consolidated supervision of banks will be created.
- 2.11. More long-term credits for SME development will be provided.
- 2.12. Unfair competition in the banking sector will be regulated and competition among banks operating in soums will be enhanced.
- 2.13. Cheap long-term financing from foreign markets will be provided to commercial banks.

**3. Activities of the Central Bank**

- 3.1. BOM's operational independence and transparency will be strengthened while focusing on preventing incorrect inflationary expectations among the public.
- 3.2. The BOM will take measures to ensure the transparency and safety of the banking sector, increasing investor and customer confidence, and preventing financial crime.
- 3.3. AML/CFT actions will be intensified through cooperation with international organizations in this field and similar authorities of other countries.
- 3.4. The BOM will further improve its public and market relations and continue to improve public education on central bank activities.
- 3.5. The credit information database of banks will be improved to allow a connection to a state information database and quick transfer of data.
- 3.6. Parliamentary oversight of the central bank's operations will be conducted on a regular basis and the independence and legal framework of the BOM's Supervisory Board will be improved.