



THE BANK OF MONGOLIA

MONETARY POLICY STATEMENT

Monetary policy decision

Number: 2014/02

Effective date: 31 July 2014

The Monetary Policy Committee (MPC) of the Bank of Mongolia (BOM) decided to increase its policy interest rate by 1.5 percentage point to 12%, at the recurrent meeting on July 30, 2014.

As of June 2014, annual inflation measured by CPI has reached at 14.6% nationwide and 15.1% in Ulaanbaatar city. Thanks to the previous policy measures to stabilize the overall economy and maintain main consumer goods' price stability, direct inflationary impacts and contributions of those goods on headline inflation has significantly been declined by 5.5 times compared to the annual average of 2010-2012.

However, foreign direct investments and net foreign assets have been declining for the last 2 years, whilst quasi-fiscal expenditures have been unalleviated. In addition, the measures on increasing foreign exchange inflows and improving balance of payments have still not been sufficient.

Therefore, the MPC has made this decision to increase tugrug yield in order to relieve the balance of payments difficulty, curb inflationary pressure, ensure financial stability in the medium and long term, prevent from potential risks in macroeconomic stability, and protect the real income of individuals. The outstanding balance of BOM's program loans, excluding the sustainable mortgage financing program, is expected to decrease by 766 billion tugrug at the end of this year. Therewith, the monetary policy decision shall be more effective along with the implementation of prudent and consolidated fiscal policy, which includes quasi-fiscal expenditures.

It has still been crucial to enhance foreign exchange inflows through increasing export proceeds and promoting foreign direct investments, and maintain fiscal stability in order to neutralize the balance of payments pressure and to overcome current economic challenges.

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

MONETARY POLICY COMMITTEE