



**MONETARY POLICY STATEMENT**  
**Lowering the policy interest rate**

**Number: 2016/05**

**Effective date: 20 December 2016**

At the Monetary Policy Committee meeting that was held on 19 December 2016, the Bank of Mongolia decided to cut its policy rate by 1 percentage point to 14.0 percent.

The Bank of Mongolia's decision on August 2016 to raise the policy interest rate was effective in preventing further instability in the foreign exchange market, preserving international reserves and thus, maintaining financial stability.

This change in policy stance is to accommodate expected lower inflation. The recent analysis indicates that inflation is expected to be below the target level next year, with demand-driven pressure on inflation remaining low. Moreover, this policy action is supported by recent improvements in export prices and fiscal policy. Higher commodity prices and expected stability of petrol prices in the domestic market is supporting Mongolia's terms of trade. The improved terms of trade is strengthening foreign exchange inflow, balance of payments and fiscal revenue. The recently approved medium term fiscal framework and the state budget for 2017, which promote fiscal discipline and sustainability of public debt over the medium and long term, is providing an additional easing room for monetary policy.

As such, monetary policy is being accommodated in order to encourage private sector investment and support real sector activities. However, the effectiveness of this policy action and future stance of monetary policy would be highly dependent on Government policies to support foreign investment, future fiscal discipline, and foreign debt repayments.

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

**MONETARY POLICY COMMITTEE**