

MONETARY POLICY STATEMENT

Lowering the policy rate

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On 15 June 2017, the Monetary policy committee of the Bank of Mongolia decided to cut its policy rate by 2 percentage points to 12% and the policy rate corridor symmetrically around the policy rate. The width of the corridor remained unchanged at 4%.

As of May 2017, annual inflation reached 3.7% nationwide and 3.8% in Ulaanbaatar city. Supply-side factors have contributed to the recent surge of inflation; however, the final impact remains low. In addition, the National Statistics Office introduced changes in the CPI methodology, which were the main factors that caused the inflation rate to rise above the previous forecasts. Despite these developments, the CPI inflation is expected to remain in the target range.

The IMF program and the bilateral/multilateral assistance agreed within the program will bring substantial forex inflows into the domestic market. In addition, successful debt operation of the Development Bank's bonds and recent surge in exports caused by favorable commodity prices are also providing substantial contribution to the supply of foreign currency. Therefore, these factors are mitigating the balance of payment related risks, and causing the exchange rate to appreciate. Appreciation of the exchange rate is not only helping to maintain the inflation rate around its target, but also creating a room for the Central Bank to soften its monetary policy stance, and make it more reflective of the current economic fundamentals.

First quarter statistics show revival of the economic growth. However, sectoral breakdown of statistics indicates that the economic activity remains weak in many sectors. This also has some negative implications for asset quality of banks and stability of the financial system, in general. Therefore, after careful consideration of these factors and proper weighting of policy objectives, the MPC decided to cut its policy rate.

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

MONETARY POLICY COMMITTEE