



MONETARY POLICY STATEMENT

Raising the policy rate

No: 2022/02

Date: March 24, 2022

The Monetary Policy Committee (MPC) of the Bank of Mongolia held scheduled meetings on March 23 and 24, 2022. Taking into consideration the current state of the economy and financial markets as well as outlook for the domestic and foreign economic environment, the MPC decided to increase the policy rate by 2.5 percentage points to 9.0 percent.

The tension arisen in international relations recently has become an additional source of uncertainty in foreign and domestic economy. As the range of uncertainties widened, commodity prices especially prices of crude oil and food rose sharply in the international markets and supply chain disruptions are expected to persist, many countries are subject to risks of higher inflation and lower economic growth for this year than previously expected.

Annual headline inflation reached 14.2 percent nationwide and 15.5 percent in Ulaanbaatar city as of February 2022. Elevated prices of food and petroleum in the international markets, transportation and logistic restrictions, which incur further transportation costs, as well as supply disruptions have been identified as the main factors explaining recent inflation developments. Though inflation has gradually decelerated in February consistent with our previous projections, current inflation outlook is being revised upwards due to the international tension arisen recently.

Economic growth last year undermined expectations owing to reduced production activities in mining, transportation and construction sectors mainly caused by border restrictions, despite trade and service sectors supporting growth in line with easing of pandemic-related quarantine measures. Economic growth outlook in 2022 is expected to be negatively affected by higher production costs driven by surges in crude oil prices in the global markets, taking into account the current state of international relations, as well as constrained supply of production inputs resulting from anti-COVID policies being implemented by our main trading partner.

Acceleration of external benchmark rate, worsening balance of payments and increased inflation expectations through prevalence of cost-push inflation that is triggered by higher production costs have necessitated implementation of policy measures with the aim to tighten monetary policy stance at a faster pace and improve relative yield on domestic currency. The Bank of Mongolia will take subsequent necessary actions in a timely manner in accordance with activities in foreign and domestic economy, inflation developments, supply constraints as well as the state of international relations.

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

MONETARY POLICY COMMITTEE