



MONETARY POLICY STATEMENT

Increasing the policy rate

No: 2022/03

Date: June 22, 2022

The Monetary Policy Committee (MPC) of the Bank of Mongolia held scheduled meetings on June 20 and 22, 2022. Taking into consideration the current state of the economy and financial markets as well as outlook and risks to the domestic and foreign economic environment, the MPC decided to raise the policy rate by 1.0 percentage points to 10.0 percent.

Annual headline inflation reached 15.1 percent nationwide and 16.2 percent in Ulaanbaatar city as of May 2022. Increases in prices of petroleum, food and imported goods comprise majority of these inflation developments. In particular, domestic petroleum prices are driven up by increased crude oil prices in global markets, while surges in food prices especially in the past 2 months are mainly explained by continued logistical delays and supply disruptions leading to higher production input and transportation costs. Moreover, rises in prices of imported goods heightened through foreign inflation and exchange rate movements are contributing to price increases in other domestic products. As the impact of these factors is likely to persist in the upcoming quarters, outlook for inflation to stabilize within the the Central bank's target interval is being delayed.

Despite slowdown in coal and crude oil exports associated with border restrictions undermining growth in the mining sector, non-mining activities improved in trade, services' sectors as well as net taxes on products, boosting economic growth. Household consumption, which had been contracting consecutively for the previous 5 quarters, began to recover in the first quarter and contributed to domestic demand growth. Mining sector is projected to contract this year owing to outlook for external demand and border issues, while non-mining sector recovery is expected to continue on the back of easing of pandemic restrictions and improvements in domestic demand.

Inflation expectations are mainly driven up by external factors and negative consequences of geopolitical tensions, while deficit for balance of payments is widening due to reduced coal exports as a consequence of continued border restrictions and higher imports amplified through price increases in external markets. Therefore, the MPC decided to raise the policy rate with the aim to stabilize inflation expectations in the medium term, ensure external and domestic balance at an appropriate level and maintain relative yield on togrog in an environment of rising external benchmark rate.

The Bank of Mongolia will take subsequent necessary actions in a timely manner in accordance with economic recovery, inflation developments, supply-related 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