



MONETARY POLICY STATEMENT

Lowering the policy rate, reducing banks' reserve requirement, extending the maturity of consumer loans, and introducing a long-term refinancing instrument

Number: 2020/06

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The Monetary Policy Committee (MPC) held an unscheduled meeting on November 23, 2020 in light of recent lockdown measures taken due to the state of public preparedness declared in response to the domestic spread of the COVID-19 pandemic. At this meeting, the MPC decided to:

1. lower the policy rate by 2 percentage points to 6 percent;
2. reduce the reserve requirement on banks' domestic currency liabilities by 2.5 percentage points to 6 percent;
3. to continue to implement restructuring and extension of the maturity of consumer loans with repayment difficulties by 12 months until July 1, 2021;
4. introduce a long-term refinancing instrument aimed at supporting SMEs and non-mining exports.

This set of decisions is directed at minimizing the adverse effects rising in the economy, as well as the banking and financial sectors, and to lighten the financial burdens of individuals, businesses and financial institutions during the COVID-19 pandemic. Furthermore, the decisions were aimed at ensuring financial and economic stability in the medium-term without missing the inflation target.

Annual headline inflation is 2.4 percent nationwide and 2.6 percent in Ulaanbaatar city as of October, 2020. In the coming months, inflation will increase marginally due to the base effect, but is expected to remain subdued and below the target of 6 percent, owing to weaker economic activity. The economy contracted 9.7 percent in the first half of 2020 as a result of the COVID-19 pandemic; however, by the end of the third quarter, the contraction has slowed to -3.1 percent and the outlook of balance of payments has improved. While the lockdown measures imposed in November to curb local spread of the pandemic have the positive effect of protecting public health in the medium to long term, they are expected to delay recovery by curtailing economic activity in the short term.

The indicators of the real economy, financial markets and commodity markets show that the global economy has been recovering in the second half of 2020. Although early clinical trials of several vaccines have been successful and are nearing completion, the second and third waves of the virus have continued in many countries, and uncertainty in the economic outlook remains elevated.

The monetary and macroprudential policy measures, taken step-by-step to mitigate the impact of the COVID-19 pandemic, increase financing and reduce the costs of financing for SMEs and non-mining exports, and thus, slow the domestic economic downturn and ensure the stability of the banking sector. The Bank of Mongolia will continue to take prudent measures to prevent credit crunch in the banking system while supporting the liquidity of banks, households and businesses.

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

MONETARY POLICY COMMITTEE