



MONETARY POLICY STATEMENT

Keeping the policy rate unchanged

Number: 2018.03

Effective date: 20 September 2018

The Monetary Policy Committee meeting was held on 20 September 2018, and it was decided to keep the Policy rate unchanged at 10 percent.

As of August 2018, annual inflation measured by the consumer price index has reached 6.0 percent nationwide and 6.4 percent in Ulaanbaatar city. In the medium term inflation is expected to stabilize around the central bank's target rate of 8 percent. Although supply related inflationary pressures are forecasted to decline, demand-pull pressure supported by economic recovery is rising at a nonaccelerating pace.

Economic growth continued to gain momentum as mineral exports increased owing to relatively high prices of commodities and investments expanded following economic recovery. Considering the momentum, the Bank of Mongolia revised its 2018 growth projections up, yet the economy remains highly susceptible to circumstances in external conditions. For instance, exchange rate volatility of togrog in the last quarter reflects direct and indirect effects from rising imports, capital outflows from emerging and developing markets, appreciation of USD against other currencies and changes in commodity prices driven by economic sanctions, set on certain countries, and trade war related factors. In an external environment of rising uncertainties, building resilience of the financial market agents and maintaining internal and external balance of the economy are crucial for the economic stability in the medium to long term.

The Bank's decision to maintain the policy rate unchanged is consistent with its aim to stabilize inflation around the target rate and would support business and economic activities.

The Monetary Policy Committee acknowledges the risks associated with external conditions and considering further developments in the external environment and its impact on domestic financial market, will discuss increasing the policy rate and sanctions for any identified violations of the policy on consumer credit during the following meeting.

In order to address the pressure of credit growth on household debt, balance of payments and overall financial stability, under the framework of macroprudential policy it is decided to set a maturity limit of 30 months on non-mortgage consumer credits, effective from January 1, 2019.

Finally, a risk weight on unhedged foreign exchange loans is raised to 150%, effective from January 1, 2019. Extending foreign currency credit to unhedged borrowers or households and corporations with limited income in foreign currency, would create pressure on borrower's debt and augment the vulnerabilities in the economy and financial sector. The action to raise the risk weight is intended to shield the financial system stability.

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

MONETARY POLICY COMMITTEE