



MONETARY POLICY STATEMENT

Lowering the policy rate and introducing long-term repo financing instrument

Number: 2020/05

Date: 14th September 2020

At the scheduled meeting held on the 14th of September 2020, the Monetary Policy Committee (MPC) decided to (1) lower the policy rate by 1 percentage point to 8 percent; (2) introduce long-term repo financing instrument. Considering the current condition, outlook of the economy and financial market, inherent uncertainties and risks in the domestic and external environment, the MPC decision aims to support new loans issued by the banking sector to the real sector and lower interest rates. The decision is expected to alleviate the current economic downturn and support economic recovery while maintaining inflation around its target level.

Annual headline inflation fell to 2.1 percent nationwide and 1.7 percent in Ulaanbaatar city as of August 2020. In the coming months, inflation will increase marginally due to the base effect, while it is expected to remain under the target level in the coming years. As a result of the Covid-19 pandemic, the economy contracted 9.7 percent in the first half of 2020, and it was below our expectation and the biggest contraction in the past 20 years. However, with the monetary and fiscal policy measures and the improvement in external sector, the economic downturn is expected to dissipate over the second half of the year and the economy is expected to move into the pace of economic recovery next year.

The global economic activity has strengthened but have been on uneven path in the second half of the year after a sharp contraction in the first half owing to the Covid-19. This has been reflected in stock market prices, commodity prices, and improved trade activities. However, uncertainty remains high as the outlook of external sector and domestic economy depends critically on the containment of the virus. The monetary and macroprudential policy measures, taken step by step to mitigate the impact of the Covid-19 pandemic, continue to provide support to the domestic economy and ensure the stability of the banking sector. The MPC will continue to monitor the economic situation and take measures accordingly to support the liquidity of households, banks, and businesses, and to prevent credit supply disruptions in the banking system.

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

MONETARY POLICY COMMITTEE