



MONETARY POLICY STATEMENT

Keeping the policy rate unchanged and reducing bank deposit dollarization

Number: 2020/03

Date: 26th of June 2020

At the scheduled meeting held on 26th of June 2020, the Monetary Policy Committee decided to:

- 1) Keep the policy rate unchanged, considering the current macroeconomic and financial market developments, their prospects, and uncertainties in the domestic and external environment;
- 2) Reduce remuneration on MNT reserve requirements issued to banks by the amount corresponding to the ratio of foreign currency-denominated (FX) deposits with relatively higher rates and FX current accounts charging any rate to total FX deposits and current accounts. It will promote financial stability in the banking system by discouraging bank deposit dollarization and maintaining relative returns on the domestic currency.

In accordance with “Law on preparedness, response to the COVID-19 pandemic and mitigation of its socioeconomic impact”, under collaborative initiatives with the international financial institutions, the Bank of Mongolia has been taking a set of policy measures to support financial stability and domestic demand.

Annual headline inflation reached 3.3 percent nationwide and 3.5 percent in Ulaanbaatar city as of May 2020. Inflation is expected to stay below the target level as a result of demand-driven inflationary pressure remaining subdued, reflecting economic activities slowing down, domestic fuel prices declining in line with oil price developments in the international market and in a case of not emerging supply-related price volatilities.

The comprehensive set of fiscal, financial and monetary policy measures pursued following declaration of high-alert preparedness in response to the COVID-19 pandemic has been influencing a positive impact on economic activities. Domestic demand has contracted in the first half of the year, owing to declining external demand and commodity prices; and imposing restrictive measures to prevent the spread of COVID-19. Despite economic growth decelerating and inflation outlook remaining at low levels in 2020, policy room to further ease monetary policy stance is constrained by the necessity to ensure domestic and external macroeconomic balances. Uncertainties and risks have been exacerbated by continued trade conflicts and COVID-19 spread, resulting in further weakening of external demand and commodity prices.

Minutes of the Monetary policy committee meeting will be released in two weeks on the Bank of Mongolia’s official website.

MONETARY POLICY COMMITTEE