



## MONETARY POLICY STATEMENT

### Increasing the policy rate

**No: 2022/05**

**Date: December 16, 2022**

The Monetary Policy Committee of the Bank of Mongolia (MPC) held its scheduled meetings on December 15 and 16, 2022. Taking into consideration the current state of the economy and financial markets as well as the outlook and risks to the domestic and external economic environment, the MPC decided to raise the policy rate by 1 percentage point to 13 percent by majority vote.

Annual inflation reached 14.5 percent nationwide as of November 2022. The inflation has been declining in line with the projection in recent months. In the coming quarters, the effects of the increase in global inflation, food, and fuel prices will grow more than previously expected, and government budget expenditures and wages will likely increase higher than expected.

Economic activity was relatively stronger than expected in the third quarter of 2022, surpassing the pre-COVID-19 levels. In recent months, the mining and transportation sectors have recovered, and the construction sector has grown due to railway construction. Non-mining sectors such as trade, services, and net product taxes have continued to intensify in the third quarter of 2022. The labor market has returned to its pre-pandemic levels, and household consumption has been steadily increasing for the past 4 consecutive quarters. All of which have supported economic growth. Furthermore, the economic outlook will depend mainly on China's "Zero-Covid" policy, the situation at border ports, the deficit in the balance of payments, and the actual export earnings.

Global economic growth has decelerated, prices of main export commodities have fallen, and the outlook for the external environment has worsened. In the following year, along with the deterioration of the external environment, the substantial expansion of government budget expenditures will stimulate import demand and aggravate the internal and external balance. In addition, the growth of consumer loans is expected to escalate following the wage growth, which will heighten both the household debt burden and imports.

In consequence, the MPC has raised the policy rate to stabilize the medium-term inflation expectations and increase the domestic currency yield. This policy measure is consistent with the commitment to reducing inflation to the target level and ensuring the economy's internal and external balance.

The subsequent policy actions on whether to pursue further monetary tightening would depend on developments in the external and domestic economy and outlook changes in inflation and macroeconomic conditions. The MPC remains committed to implementing necessary policy actions until inflation returns to stabilizing around the target level.

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

**MONETARY POLICY COMMITTEE**