



## MONETARY POLICY STATEMENT

### **Increasing the policy rate, re-setting the width of policy rate corridor and excluding certain bank liabilities newly funded on international markets from required reserve liabilities**

**Number: 2022/04**

**Date: September 20, 2022**

The Monetary Policy Committee of the Bank of Mongolia (MPC) held its scheduled meetings on September 16 and 20, 2022. Taking into consideration current state of the economy and financial markets as well as outlook and risks to the domestic and external economic environment, the MPC decided to:

1. Raise the policy rate by 2 percentage points to 12 percent;
2. Widen the policy rate corridor to be set as 2 percentage points above and below the policy rate and;
3. Exclude certain bank liabilities with maturities of at least 360 days and more that are newly funded on international markets in the form of bonds or loans from required reserve liabilities.

Annual inflation reached 14.4 percent nationwide and 14.8 percent in Ulaanbaatar city as of August 2022. External factors have been largely contributing to headline inflation through its impact on prices of imported goods. The extent of such impact is expected to decline in the upcoming quarters, leading to lower inflation outlook.

Economic activities grew relatively high in the first half of 2022. Despite border restrictions being eased to a certain degree, its negative effect on mining and transportation sector persists. Non-mining production in trade, services, taxes and agriculture sectors intensified in the second quarter of 2022 and reached 2019 pre-pandemic levels in the first half of 2022. Household consumption has been rising consecutively in the last 3 quarters and supporting domestic demand. Recovery in non-mining sector activities is expected to continue this year, mainly contributing to economic growth.

Higher deposit dollarization in the banking system and elevated benchmark rates in international markets have necessitated increases in domestic currency yield. As such, the MPC decided to implement a set of policy measures to raise the policy rate, widen the policy rate corridor to its pre-pandemic level and exclude certain bank liabilities newly funded on international markets from reservable liabilities with the objective to stabilize inflation in the medium term and increase domestic currency yield. Raises in the policy rate would not only be effective in reducing inflation to its target level, but also is consistent with the policy of ensuring domestic and external economic balance.

The subsequent policy actions on whether to pursue further monetary tightening would be dependent on developments in external and domestic economy as well 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**