THE BANK OF MONGOLIA KEEPS THE POLICY RATE UNCHANGED AT 13%

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With consideration of the current state of the economy and financial markets as well as the outlook and risks to the domestic and foreign economic environment, the Monetary Policy Committee of the Bank of Mongolia decided to keep the policy rate unchanged at 13 percent.

The annual CPI inflation in May 2023 reached 11.3 percent nationwide and 10.8 percent in Ulaanbaatar. Prices of meat and meat products have been rising at a faster pace than expected for the last several months, driven by supply disruptions. In addition, a deceleration in the inflation of imported goods has been slower than anticipated. As such, the inflation forecast has been revised upward compared to the previous projection, yet it is still expected to decelerate further. However, fiscal expenditures, particularly salaries, pensions, and transfers, are increasing significantly in the upcoming quarters through the budget amendments.

Economic activity in the first quarter of 2023 was stronger than anticipated owing to rapid recovery in mining and its related sectors such as transportation, and trade. While further improvements in these sectors are foreseen, activities in non-mining sectors are expected to slow down due to unfavorable weather effects on the agricultural sector and contraction in services, reflecting a decline in household consumption and domestic demand. Such deceleration of growth in these labor-intensive industries could lead to a more sluggish labor market and a deterioration in household consumption.

The outlook for foreign demand and export prices though has improved. The fall in the price of oil, together with the easing of global supply chain disruptions had significant impact on reducing inflation and accelerating economic recovery in many countries worldwide. At the same time, global economic

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uncertainty remains elevated due to geopolitical tensions and financial turmoil on the banking sector of the leading economies such as the United States and Eurozone.

Considering the high levels of external risks and uncertainty, coupled with the anticipated increase in fiscal expenditure, the MPC decided to keep the policy rate unchanged at 13 percent. This decision aims to stabilize inflation around its target level, ensure both internal and external economic balances, and increase domestic currency yield.