

Zoljargal Naidansuren: Pro growth monetary policy and structural economic reforms in Mongolia

Speech by Mr. Zoljargal Naidansuren, Governor of the Bank of Mongolia, at the 30th Asian Bankers Association (ABA) General Meeting and Conference, Ulaanbaatar Mongolia, 12-13 September 2013.

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Dear Chairman, Distinguished guests, Ladies and Gentlemen,

It is my great honor and pleasure to address you on this 30th Asian Bankers Association General Meeting and Conference as a special guest. I would like to thank Asian Bankers Association Chairman Mr. Lorenzo Tan and Mongolian Bankers Association President Mr. Bold Magvan for inviting me to speak on the implications of monetary policy, conducted by the Bank of Mongolia, and its ultimate objective aiming to ensure long-term sustainable growth.

Since 2009, we have been living in a volatile, uncertain and “strange for some conventional monetary theoreticians” environment, facing short and long term policy challenges. Like many central banks, we saw the European debt crisis and Chinese slowdown affect us through a weaker external demand and softer commodity prices. In addition, reversal of capital flows in emerging economies, depreciation of local currency, and quantitative easing policies in advanced economies are testing our capability to safeguard our own economy and growth potential. We need to be wary in order to prevent a painful boom and bust cycles - which could potentially result in significant financial hardships such as credit crunches or even a widespread economic crisis.

Since the last quarter of 2011, Mongolia has been experiencing a prolonged deterioration of terms of trade and a decline in foreign direct investment, due to softness in the main exporting commodity prices and uncertainty in worldwide and local investment climates. In one hand, this uncertainty in investment environment was caused by People’s Republic of China becoming less risk tolerant - which resulted in a significant decrease in Chinese outward investments to emerging market. On the other hand, past changes in Mongolian investment legislation was another, internal, reason for creating such uncertainty.

Nonetheless, in this uncertain environment with overhanging negative trend in the external sector, the Bank of Mongolia had to employ more creative and proactive tools than the traditional monetary policy in order to maintain pro-growth monetary policy and to restore financial market confidence and macro stability.

In this regard, Government of Mongolia and the Bank of Mongolia have reached a mutual understanding to take joint policy measures, which will set the balance between preventing of economic downturn, safeguarding real income of Mongolians, supporting employment through stimulating the real sector while maintaining low and stable inflation. Moreover, during this volatile period the Bank of Mongolia has conducted a series of monetary policy easing in order to promote/stimulate the financial system and has eliminated the weakest link in our banking system.

Ladies and gentlemen,

As any other country, Mongolia aims to achieve long-term sustainable growth. In order to accomplish this objective, we believe that it is absolutely necessary to make structural economic reforms to enhance productivity, investments and savings of the middle income bracket.

I would like to point out the encouraging results of the policy measures taken by the Bank of Mongolia and the resulting confidence in our quest to transform this consumption-based, commodity dependent economy into a savings-based, productivity driven, diversified and competitive economy.

Through lower inflation and pro-growth monetary policy, we aim to promote a stronger middle class by increasing savings and safeguarding real incomes and jobs of the middle income bracket citizens,

Thank you for your attention and I wish you a fruitful and productive conference.