

**MONETARY POLICY WORKSHOP ON STRENGTHENING
MACROPRUDENTIAL FRAMEWORKS**

*Organized by
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Macroprudential Policy in Mongolia

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Bank of Mongolia (BoM)

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BoM mandate & Supervision

- The main objective of the Bank of Mongolia is:
 - to ensure the stability of Mongolia's currency, the togrog
 - Within this main objective, the BoM shall promote balanced and sustained development of the national economy
- In 1991, the government instituted a Banking Law that created a two-tiered banking system comprising of the BoM and commercial banks.
- BoM functions include supervision of banking activities
 - The financial supervision of commercial banks
 - Reviewing applications for the establishment of new commercial banking entities and branches of existing financial institutions

Macroeconomic indicators

(as end of 2011)



Population 2.83 million

GDP (current USD) 7881.8 million

GDP per capita (current USD) 2781

Inflation (%) 10.2

Economic growth (%) 17.3

Source: Statistical Bulletin, NSO

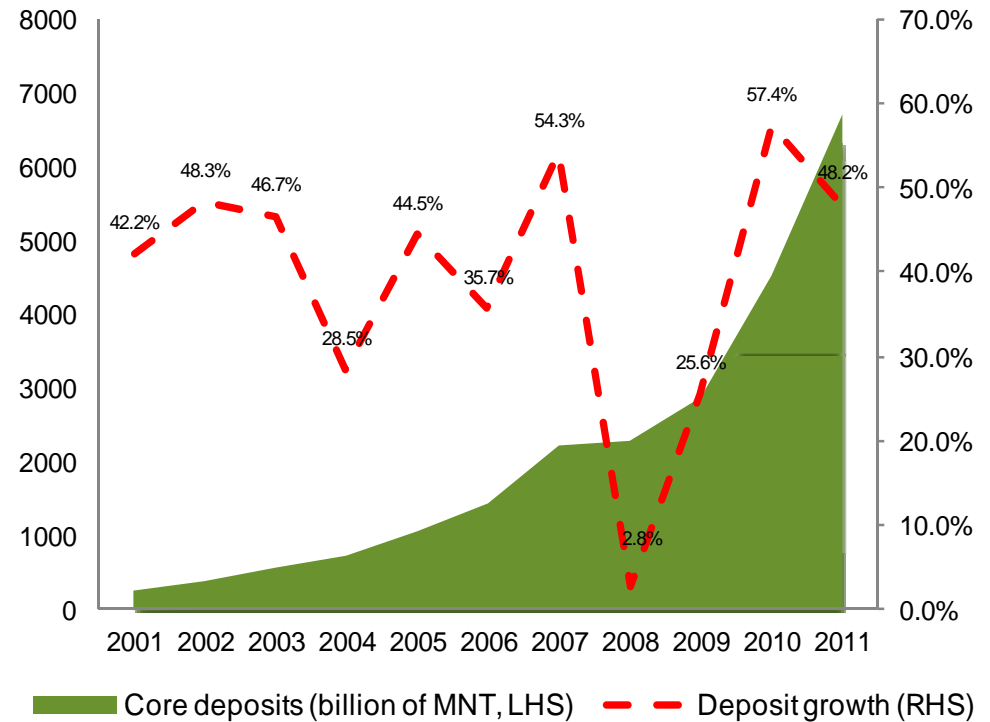
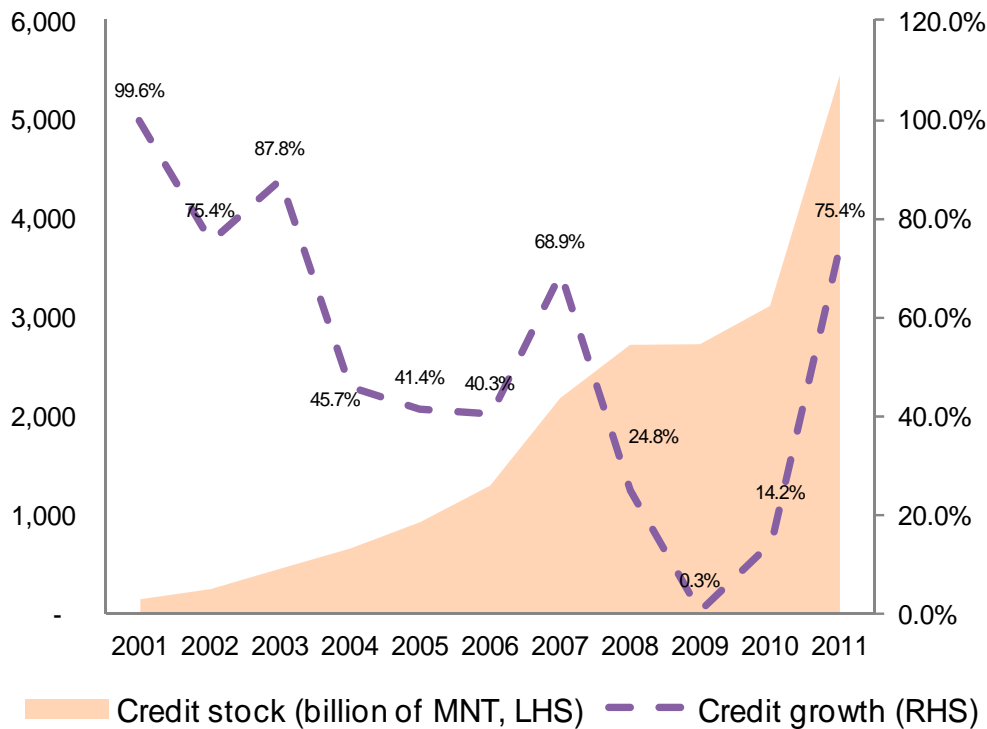
Economic Overheating

(as end of 2011)

	Amount (million USD)	Growth rate, YoY (%)
Real GDP	3,552.6	17.3
Nominal GDP	7,881.8	28.7
Budget Expenditure	3487.64	56.2
Broad Money (M2)	4,666.9	37.0
Loan	4,105.7	72.8
Export	4,780.4	64.9
Import	6,526.9	99.1
Net International Reserve	2,457.1	8.7

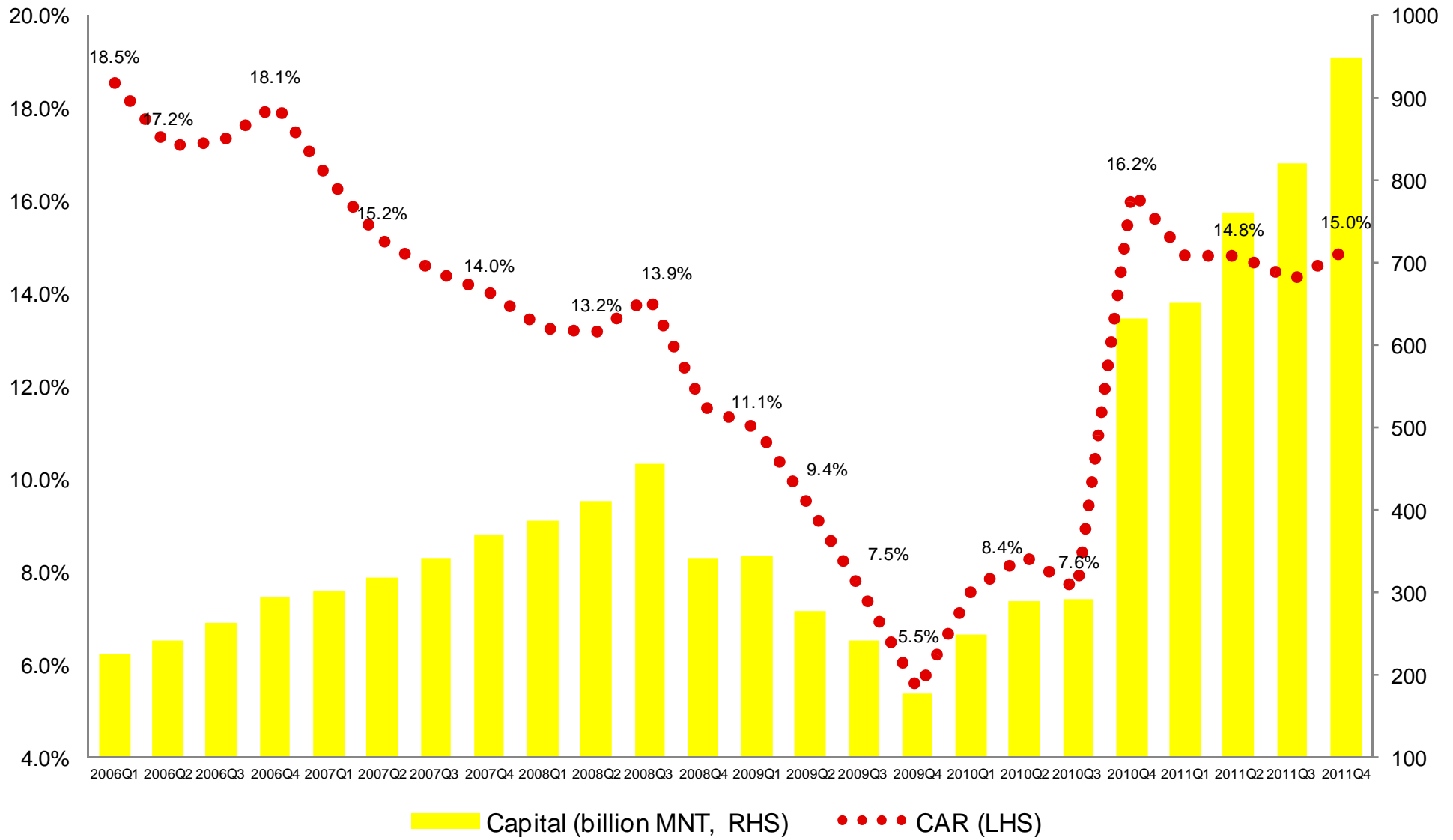
Source: Statistical Bulletin, NSO

A&L of the banking sector



Source: BoM supervisory database

Capital adequacy



Source: BoM supervisory database

BoM's Macropprudential Policy

- *Liquidity ratio*: from 18% to **25%** in Nov. 2011;
- *Capital adequacy ratio*: from 12% to **14%** in Dec. 2011 (Counter-cyclical buffer for a systematic important bank added);
- *Minimum capital requirement*: from MNT 8 bln to **MNT 16 bln** in 2011;
- Following the Basel principle, Tier 1 constitutes **75%** (up from 50%) and Tier 2 constitutes **25%** (down from 25%);
- *Reserve requirement*: from 9% to 11% in Aug. 2011;
- *Policy interest rate* increased to **12.75%** in March, 2012;

Further concerns

- Implementing counter-cyclical policy to sustain macroeconomic and financial stability:
 - Avoiding a repeat of the boom and bust cycle
 - Treating financial stability arising from excessive credit expansion and asset price bubbles
 - Dampening systemic risk and limiting spillovers from stress
- The BoM is surveying new policy instruments to adopt:
 - Dynamic provisions
 - Provision on normal loan
 - Caps on foreign currency lending
 - Credit limits by economic sector
 - Time-varying capital requirement

Policy challenges

- Are regulators ready for time-varying risks?
- The consistent coordination between fiscal and monetary policies is questionable
- How would Macro-prudential policy complement to monetary policy in Mongolia?
- What are necessary macroprudential instruments to dampen systemic risk and limit spillovers in the financial sector?.

Best wishes from Mongolia

