

Ensuring financial stability

By **HON DR LKHANAASUREN PUREVDORJ**

GOVERNOR OF THE BANK OF MONGOLIA



**LKHANAASUREN
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was appointed Governor of the Bank of Mongolia by Parliament on the 8th of January 2009. During his career he has worked in a variety of senior positions. He served as the First Deputy Minister of Trade, First Deputy Minister of Finance, Director of the National Tax Authority and Chairman of the State Property Committee. He was previously a Member of Parliament and worked as Head of the Parliamentary Standing Committee on Budgets.

Mongolia is one of the most open economies in the region. Our open, consistent and accommodating economic policies promote financial freedom. We provide better investment opportunities since we have liberalised the financial sector, initiated favourable investment legislation. We do not impose any controls on capital flows.

The Bank of Mongolia is the central bank of the country that formulates and implements monetary policy independent of the Government of Mongolia. Since the bank's core objective is to ensure price stability, we are committed to promoting and maintaining monetary and financial stability as our contribution to a healthy economy. Hence, we strive to promote well balanced and sustainable development of the economy, by maintaining the stability of the financial markets and the banking system. Thus, monetary policy is implemented through setting the policy rate, absorbing liquidity through issuance of Central Bank Bills and managing the exchange rate in line with macro-economic fundamentals and mindful of the global situation in foreign exchange and money markets.

Since 2004, Mongolia has experienced strong economic growth averaging 8.6 per cent and relatively low inflation. This was largely due to high prices globally in our main export commodities of gold and copper. However, Mongolia was hit hard by external shocks with the sudden and precipitous drop in export commodity prices, notably copper. Thus, we are striving to improve fiscal management and reducing the dependence of the economy on the mineral sector.



The Bank
of Mongolia
headquarters

Although Mongolia was hit by the global financial crisis like other mineral dependent economies, market conditions were successfully stabilised, gross international reserves were increased by 93 per cent (up to US\$1.3 billion since the beginning of 2009), and inflation was lowered to 2 per cent, due to our sound economic policies, supported by the Stand-By Arrangement with the International Monetary Fund. Moreover, the recently signed investment agreement to develop the Oyu Tolgoi mine should boost economic growth to about 8 per cent next year, as a result of investments that will accompany the development of this project. The prospects for the medium-term are favourable given the significant upswing forecast for mineral exports once the Oyu Tolgoi project comes on stream in 2013. This will lead to a larger trade surplus, positively contribute to the stability of the national currency, and further increase our international reserves. Moreover, Fitch Ratings' recent revision of their ratings from 'B negative' to 'B stable' for Mongolia is another sign of the stabilisation of Mongolia's sovereign credit fundamentals.

The need for a much larger and more efficient financial sector led to the restructuring of the banking system. Mergers and acquisitions of banks should create a more stable and competitive banking sector that has sound foundations. This will improve the financial environment for strategic foreign investors. Moreover, the revision of the deposit guarantee system from general coverage to a more classical system, a 12 per cent capital adequacy ratio requirement for banks, and enhanced banking supervision will further stabilise the financial system. However, as the economic slowdown has weakened credit quality, we are monitoring the banking system closely and stand ready to take action, as needed, to secure stability and bolster confidence. We are committed to responding proactively and vigorously to handling problems in individual banks, as they arise, and to maintaining the integrity of, and confidence in, the Mongolian banking system.

The government is committed to providing full support to foreign investors by creating a secure and attractive environment. Our objectives remains to achieve strong, sustainable and equitable growth with low inflation and our policy priorities are to improve the health of public finances and bolster confidence in the banking system. **F**