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CCAMTAC - Regional Research Seminar Series

"Changes in Credit Standards and the Macroeconomy: Evidence from Mongolia"

April 17, 2025

Introduction and moderation:

Mr. Norbert Funke, Director, IMF-CCAMTAC

Presenter:

Ms. Dulamzaya Batjargal, Head of the Research Division, Research and Statistics Department, Bank of Mongolia

Interventions:

Mr. Bekzhan Kuandykov, Chief specialist, Financial Stability Department, National Bank of Kazakhstan

The seminar explored a collaborative research paper by the staff of the Bank of Mongolia and the International Monetary Fund (IMF). The focus was on understanding the fluctuations in credit standards and their macroeconomic ramifications in Mongolia, an economy heavily influenced by mining exports. The event aimed to analyze how credit standards impact economic growth and inflation in Mongolia, discuss the challenges of differentiating between credit supply shocks and demand factors, and share insights and best practices for macroeconomic modeling relevant to emerging economies.

Tigran Poghosyan, IMF's resident representative to Mongolia and co-author, noted that the research paper provides valuable insights on the relationship between credit standards and macroeconomic performance. The primary motivations for the study included understanding the dynamics of credit supply and demand in Mongolia's volatile economy and the importance of distinguishing credit supply shocks from demand factors, as both are influenced by macroeconomic conditions.

Dulamzaya Batjargal presented the main findings, drawing from the Bank of Mongolia's Bank Lending Survey, which has been conducted quarterly since 2017 across all 12 commercial banks. The survey captures banks' assessment of credit standards and loan demand, enabling the creation of a Credit Standard Index (SIT) and a Credit Demand Index (DIT). Using a dynamic fixed effects model with SIT as the dependent variable, the study explains variations in SIT based on DIT, lagged SIT, macroeconomic variables such as real GDP growth, inflation, and bank-specific factors like risk tolerance, thereby isolating pure credit supply shocks.

Subsequent VAR analysis revealed that tighter credit standards often precede economic downturns, leading to a significant reduction in credit supply and output. Specifically, a one standard deviation tightening of credit standards results in a 5% decline in loan growth, a 1% decline in output growth, and a 0.8% decline in inflation at the peak. These results suggest that credit supply shocks - especially those related to lending standards - have meaningful macroeconomic implications.

The research indicated that household credit supply shocks predominantly affect output growth, whereas enterprise credit supply shocks have a stronger impact on inflation. The structure of the banking sector - characterized by a high concentration of market share among a few large banks- also influences the variability in credit standards. The seminar emphasized the need for the Bank of Mongolia to closely monitor credit standards and utilize the Bank Lending Survey to inform macroprudential policies. The insights from the research can assist other emerging markets facing similar economic challenges.

In the discussion, Bekzhan Kuandykov encouraged the exploration of the relationship between credit standards and non-performing loans or bank profitability. He also raised concerns about the concentration of the banking sector affecting the research findings. The research team acknowledged the importance of including bank-specific factors in future analyses and expressed interest in investigating the effects of subsidized lending on macroeconomic variables.

In conclusion, the seminar served as a critical platform for knowledge exchange, emphasizing the critical role of credit standards in shaping macroeconomic outcomes. The insights gained from this research are expected to guide future policy frameworks that aim to maintain economic stability and growth in Mongolia.

Future research is suggested to explore the impacts of specific loan types, such as mortgages versus consumer loans, on macroeconomic variables. Enhancements in methodology, such as incorporating sign restrictions or other identification strategies, could improve the robustness of the findings. This seminar emphasizes the necessity for vigilant monitoring of credit standards and the application of research insights to support economic policymaking in Mongolia and similar emerging economies.