1.Overview

Economic activity remained strong in the fourth quarter of 2021 owing both to domestic and external demand. In the last quarter of the year, firms' access to the loans they need for their economic activities was enhanced. Therefore, loans extended to firms was the determining factor in total loan growth. Real sector confidence and capacity utilization ratios remained high, and investment and employment tendencies remained strong. Against this background, in the last quarter, Gross Domestic Product (GDP) increased by 9.1% year-on-year and 1.5% quarter-on-quarter, while the annual growth rate was 11% in 2021. On the production side, the industrial and services sectors were the main drivers of annual and quarterly growth, whereas the construction sector restrained growth. On the expenditures side, the main driver of both quarterly and annual growth was final domestic demand, with private consumption in the lead.

The share of sustainable components in the composition of growth posted an increase. Machinery-equipment investments, one of the drivers of potential growth, have been increasing on an annual basis for the nine consecutive quarters since the last quarter of 2019. Meanwhile, the contribution of components that support the current account balance, such as net exports, was high after the pandemic. In 2021, machinery-equipment investments and net exports made significant contributions to the annual growth by 2.3 and 4.9 percentage points, respectively. These developments observed in the sustainable components of the growth composition had a positive effect on the labor market as well. By the end of 2021, Türkiye ranked first among the OECD countries in terms of the increase in employment compared to the pre-pandemic period. In this period, seasonally adjusted employment growth was over 1.5 million, and employment increases spread across all sectors. Owing to the rise in employment, the unemployment rate fell by 2.3 points compared to the pre-pandemic period, while the decline in the non-agricultural unemployment rate was 2.8 points.

Leading indicators for the first quarter of 2022 reveal that economic activity has lost some momentum due to domestic demand. Increasing supply constraints, uncertainties and energy prices amid geopolitical developments increased the downside risks on the global economy. The Turkish economy, on the other hand, displayed a resilient outlook against these unfavorable developments, and being backed by foreign demand, economic activity remained robust in the first quarter. Adjusted for seasonal and calendar effects, the Industrial Production Index (IPI) in January-February increased by 2% compared to the previous quarter. Industrial production is buoyant due to the strong external demand in exporting sectors. While industrial turnover indices point to a slowdown in domestic demand in the January-February period, the increase in external turnover indices indicates that external demand continues to support industrial production. On the other hand, the January-February average of retail sales volume indices decreased compared to the previous quarter, indicating a loss of momentum in domestic demand.

Despite the sustained positive performance of exports and the recovery in services revenues, the current account deficit increased amid rising energy costs. The strong course in exports continued in the first quarter of 2022. Backed by the global economic recovery trend and rising export prices in this period, exports remained high, albeit with differences at the regional level. Regional losses in exports stemming from geopolitical developments were compensated thanks to the market diversification flexibility of exporting companies. While the economic activity continued to be robust, the accelerated increases in energy prices pushed imports upwards in the first quarter of 2022. Excluding price effects, the quantity of exports remains high, while the quantity of imports has also increased but more moderately compared to exports. Service revenues continue to recover with the contributions of travel and transport revenues, as they retained pre-pandemic levels in the last quarter of 2021. Hence, service revenues contribute further to the current account balance. In 2021, the seasonally adjusted current account deficit decreased, with the strong course of exports and the fast recovery in service revenues in the lead. However, energy imports, which have increased since the last quarter of 2021, affected the current account balance adversely. In the first months of 2022, the 12-month cumulative current account balance continued to post a surplus excluding gold and energy.

The exchange rate volatility implied by options in emerging economies posted an increase, while the implied volatility of the Turkish lira receded notably. The increase in exchange rate volatility amid the Russia-Ukraine conflict was more limited in the Turkish lira and the one-month exchange rate volatility registered a decline compared to the previous reporting period. A similar course was seen in the 12-month exchange rate volatility of the Turkish lira (TL), but this decline remained more limited.

The increase in loans extended to firms in the first quarter of 2022 played a significant role in the level of total loan growth. In the first quarter of the year, banks' funding costs remained low, and loan growth rates remained above historical averages. The results of the Bank Loans Tendency Survey (BLTS) indicate that the acceleration in corporate loans is driven by working capital requirement. Business loan growth gained momentum, while the growth rates of housing and personal loans lost pace. The Central Bank of the Republic of Türkiye (CBRT) evaluates that the growth rate of loans, including long-term TL investment loans, and the targeted use of accessed funds for economic activity is important for financial stability. Against this background, the CBRT strengthened its macroprudential policy toolkit and introduced changes to the reserve requirement regulation to enhance financial stability and promote liraization in line with the main objective of price stability. In this context, required reserves, which were applied to the liability side of the balance sheets, are now applied also to the asset side of the balance sheets to strengthen the macroprudential policy toolkit. Moreover, TL commercial cash loans were included in the scope of reserve requirements.

Consumer inflation was 61.14% on an annual basis in the first quarter of 2022, and annual inflation increased across all sub-categories. In the first quarter of the year, supply constraints became more evident amid geopolitical developments. As a result, hikes in global commodity prices, especially energy, metal, food and agricultural product prices added to inflationary pressures. Meanwhile, international food prices hit historically high levels. In addition to the uptick in import prices, supply-side factors such as high transportation costs and supply constraints had further adverse effects on inflation developments. The stable course of the Turkish lira in the first quarter averted a more negative outlook for inflation. While the upsurge in commodity prices, supply constraints and transportation costs continued to shape producer prices in the first quarter of the year, price adjustments for electricity and natural gas producers emerged as another deteriorating factor. Against this backdrop, monthly rates of increase in B and C indices lost momentum, while their annual inflation rates increased compared to the previous quarter.

In the February-April period, the CBRT kept the policy rate unchanged at 14%. In the Monetary Policy Committee (MPC) meetings for the February-April period, the CBRT stated that inflation increased due to the rise in energy costs driven by the environment of heightened regional conflict, temporary effects of pricing formations detached from economic fundamentals, the supply-side factors such as rising global energy, food and agricultural commodity prices and supply constraints as well as demand developments. In the April Meeting, the CBRT underlined the effects of supply-side factors on inflation as supply constraints became increasingly evident due to ongoing geopolitical risks. It is envisaged that the disinflation process will start on the back of measures taken and decisively pursued for sustainable price and financial stability along with the resolution of the ongoing conflict and the elimination of the base effects on inflation. In consideration of all these factors, the CBRT decided to keep the policy rate unchanged in the February-April period. The CBRT also stated that the cumulative impact of the policy decisions was being closely monitored, and communicated that to create an institutional basis for sustainable price stability, the comprehensive review of the policy framework continued with the aim of encouraging permanent and strengthened liraization in all policy tools of the CBRT.

One of the essential elements of the CBRT's policy review process is the liraization strategy. The CBRT launched a comprehensive review of the monetary policy strategy that will yield long-term and lasting success rather than short-term temporary gains, with an eye to sustainable price stability. The liraization strategy is at the center of this process. With this strategy, while the sensitivity to the exchange rate in inflation and pricing behavior is taken into account in the short term, structural steps are being taken to strengthen the permanent improvement in the current account balance by supporting production and exports in the medium term.

The liraization is expected to support monetary policy instruments in the medium and long term in the fight against inflation through three channels. The first channel will be to encourage TL savings with FX-Protected Deposits and similar instruments, ensuring that their returns are not lower than those of alternative instruments. The second channel is the gradual management of the transition to TL instruments for the CBRT liquidity and provisioning operations. In this framework, Turkish lira collateral and instrumentswill be prioritized in accessing the TL, and in particular, the share of currency swap transactions in total funding will be reduced. Thirdly, to secure permanent gains in disinflation by improving production capacity, it is important to meet the funding needs of sectors that support the sustainable improvement of the current account balance and engage in foreign exchange earning activities at appropriate maturities in TL terms.

The liraization strategy is grounded in the construction of the financial system through Turkish lira instruments. The liraization strategy is designed with a holistic approach that focuses on the use of the Turkish lira through new financial products, collateral diversification and liquidity management practices. With the liraization process, it is expected that the main store of value in the financial system will be the Turkish lira and TL-denominated assets, the weight of Turkish lira in the balance sheets will increase significantly, the CBRT will use TL-denominated assets in liquidity transactions, and the Turkish lira will be the only medium of exchange in domestic commercial transactions. Accordingly, an important focus of the practices to be implemented in the near, medium and long term will be to ensure the liraization of the financial system to reshape price stability on a sustainable basis.

1.1. Monetary Policy Decisions

In the February Meeting, the CBRT underlined pricing formations detached from economic fundamentals and decided to keep the policy rate unchanged. In the summary of the February MPC meeting, it was emphasized that the rise in inflation was driven by pricing formations detached from economic fundamentals, supply-side factors such as increases in global energy, food and agricultural commodity prices, and supply shortages as well as demand developments. In addition, the prediction that the disinflation process will start on the back of the elimination of the base effects on inflation was shared with the public. It was announced that in addition to the decisions taken, a comprehensive policy framework review process was carried out to encourage permanent liraization in all policy tools to reshape price stability on a sustainable basis.

Within the scope of the liraization strategy, in February, the CBRT took measures to encourage non-resident Turkish citizens to repatriate their savings to Türkiye and companies that are not net exporters to convert to TL deposits. The CBRT enabled non-resident Turkish citizens to open a "Deposit and Participation Scheme for Non-Resident Turkish Citizens" (YUVAM) account with domestic banks, and companies that are not net exporters to use foreign currency rediscount credits, provided that the FX-Protected Deposit (KKM) conversion is made. It was decided that the company limits of export and foreign exchange earning services rediscount credits be converted into the Turkish lira, and the total limit of these loans and the limits allocated to banks be converted into Turkish lira as of the end of the year (Table 1.1).

In the March MPC Meeting, emphasizing inflationary risks stemming from the heightened regional conflict, the CBRT decided to keep the policy rate unchanged. In the summary of the MPC meeting, it was stated that the increase in inflation was driven by rising energy costs resulting from the heightened regional conflict, temporary effects of pricing formations that are detached from economic fundamentals, supply-side factors such as the rise in global energy, food and agricultural commodity prices, supply constraints, and demand developments. It was also assessed that credit growth including long-term investment loans and the targeted use of accessed funds for economic activity was important for financial stability.

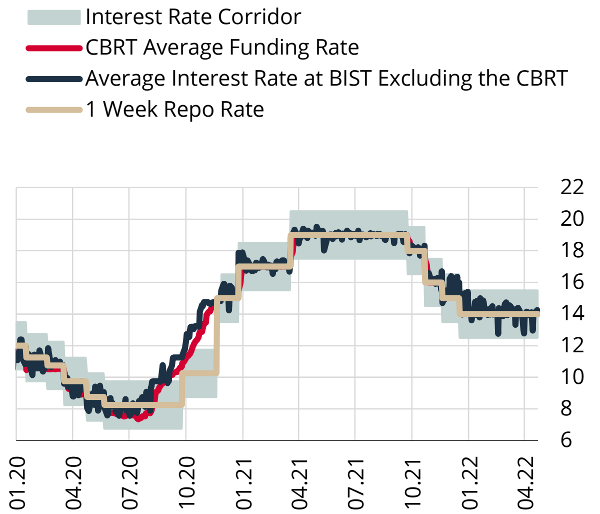
In March, new steps were added to those taken within the scope of the liraization strategy. Accordingly, the opportunity to renew overdue KKM deposits was introduced and the shortest maturity for KKM deposits was reduced from 6 months to 3 months for legal entities residing in Türkiye. For foreign exchange sales to be made to account holders by using the end of the maturity account balance of the accounts, it was decided to use the CBRT fixing rate of 11:00 a.m. and the banking and insurance transactions taxrate in the said foreign exchange sales was lowered to zero. In addition, the scope of the YUVAM system was expanded, and foreign natural and legal persons were included in the system. In order to bring physical assets in gold, which is an important savings tool for domestic residents, into the financial system, physical gold assets deposited by real and legal persons in their gold accounts in banks were allowed to be converted into TL-denominated deposits and participation accounts.

In April, the CBRT decided to keep the policy rate unchanged, emphasizing that the rise in global energy, food and agricultural commodity prices causes strong negative supply shocks. The CBRT stated that the recent increase in inflation was driven by rising energy costs resulting from geopolitical developments, temporary effects of pricing formations that are detached from economic fundamentals, strong negative supply shocks caused by the rise in global energy, food and agricultural commodity prices. In March, the CBRT assessed that credit growth including long-term investment loans and the targeted use of accessed funds for economic activity were important for financial stability. In April, the CBRT highlighted this assessment with the decision to strengthen the macroprudential policy toolkit. To this end, a regulation was introduced to reserve requirements (RR). According to this regulation, the RR, which used to be applied to the liability side of balance sheets of banks, is now applied also to the asset side of balance sheets of financing firms as well. RR ratios were differentiated according to the loan growth rates of banks since 31 December 2021. Meanwhile, RR ratios of financing companies, which were 0%, have now been set at the same level as banks, and their liabilities to domestic banks were included in the scope of reserve requirements.

In April, the scope of the liraization strategy was expanded to include RR and foreign exchange legislation. The interest/remuneration rate to be applied to RR established in Turkish lira was determined as zero percent, and the practice of applying additional interest/remuneration to Turkish lira required reserves was terminated depending on the transformation of the accounts of resident real persons. Regarding the practice of no commission for the amounts held in foreign currency in RR and noticed FX deposits, the 20 percent conversion criterion date was updated from 7 July 2022 to 2 September 2022 and the commission rate for the 10 percent conversion criterion was rearranged. In order to encourage the conversion to Turkish lira time deposits/participation accounts and liraization, the foreign currency deposit/participation fund RR ratios were differentiated according to the real person conversion ratio. With the amendment made in the foreign exchange legislation, the obligation to fulfill and accept the contractual payment obligations in Turkish lira started to be implemented in the sales contracts. It was stipulated that all contracts and pricing of companies that use investment committed advance loans with residents in the country should be made in Turkish lira.

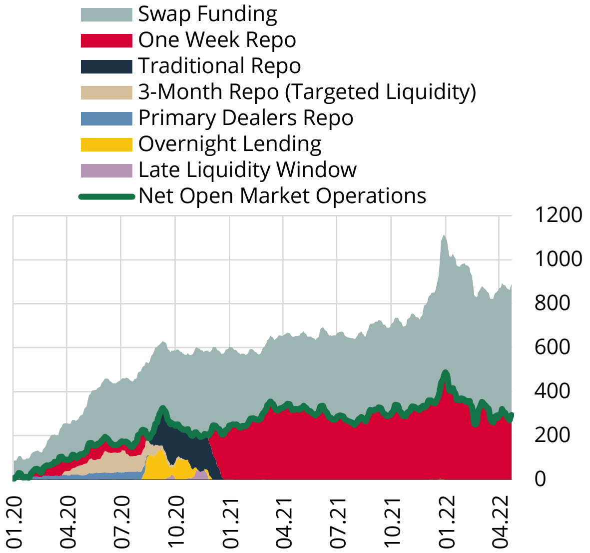
In the current reporting period, the CBRT continued to provide funding within a simple operational framework through Open Market Operations (OMO) and swap transactions, and the overnight interest rates hovered around the CBRT policy rate. Owing to the CBRT's predictable liquidity management framework, Borsa Istanbul (BIST) overnight repo rates continued to hover around the CBRT policy rate (Chart 1.1.1). The amount of swap transactions, which was TRY 613 billion as of 31 January 2022, decreased to TRY 589 billion as of 22 April 2022. In the same period, the net OMO funding also declined to TRY 293 billion from TRY 366 billion (Chart 1.1.2).

Chart 1.1.1: CBRT Rates and Short-Term Interest Rates (%)



Sources: BIST, CBRT.

Chart 1.1.2: CBRT OMO and Swap Transactions (One-Week Moving Average, TRY Billion)



Source: CBRT.

Table 1.1: Monetary Policy Implementations

Date	Institution	Policy Decision
1 February 2022	CBRT	▪ In order to encourage non-resident Turkish citizens to repatriate their savings to Türkiye, the CBRT decided to introduce YUVAM accounts to be held in domestic banks.
8 February 2022	CBRT	▪ The maturity of Turkish lira rediscount credits was reduced to 180 days. ▪ Firms that would use Turkish lira rediscount credits were provided with the facility of an interest rate reduction of: 100 basis points if they make a commitment to maintain/increase employment, 100 basis points if they make a commitment to be a net FX seller, and 100 basis points if they make a commitment to increase their exports by 10% in the calendar year in which the credit is used compared to the previous year. ▪ It was decided that the total limit of rediscount credits would be converted to Turkish lira at the amount of TRY 405 billion, effective from 01.01.2023.
10 February 2022	CBRT	▪ Firms that are not net exporters were granted the right to use foreign currency-denominated rediscount credits on condition of conversion to KKM. Steps were taken towards increasing the share of TRY rediscount credits.
1 March 2022	CBRT	▪ It was stipulated that the amounts of advance loans against investment commitment should be held in blocked accounts, and should be transferred by an intermediary bank to the account of the supplier of goods or services to which the firm would make the payment, against vouchers. ▪ It was stipulated that all contracts and pricing that the firms using advance loans against investment commitment would conduct with residents regarding the relevant investment should be in Turkish lira only. ▪ It was stipulated that firms using the credits should make the domestic pricing and sale of the goods, produced via the relevant investment, in Turkish lira only. ▪ A facility was introduced allowing for the use of credits at a fixed interest rate only and with a maximum total interest rate reduction of 500 basis points over the policy rate depending on the following commitments: • A reduction of 150 basis points for a commitment of export growth and/or import substitution (compulsory commitment). • A reduction of 150 basis points from the credit interest rate for an investment that will be made in the fourth, fifth and sixth regions according to the Socio-Economic Development Ranking Survey of Provinces and Regions Report prepared by the Turkish Ministry of Industry and Technology, or in an Organized Industrial Zone located in the third region. • A reduction of up to 150 basis points depending on the rate of use of domestic machinery. • A reduction of 150 basis points for investments with a minimum external financing of 20%.
7 April 2022	CBRT	▪ To support the Primary Dealership system, primary dealer banks were provided with a facility to sell TRY-denominated fixed-coupon Government Domestic Debt Securities (GDDS) to the CBRT.
13 April 2022	CBRT	▪ Of the rediscount credits for export and foreign exchange earning services used before 4 April 2022 for which the export commitment was not fulfilled by this date, an additional twelve-month period was given for those for which it was declared that the commitment would be fulfilled through exports of goods or services to Russia and/or Ukraine.

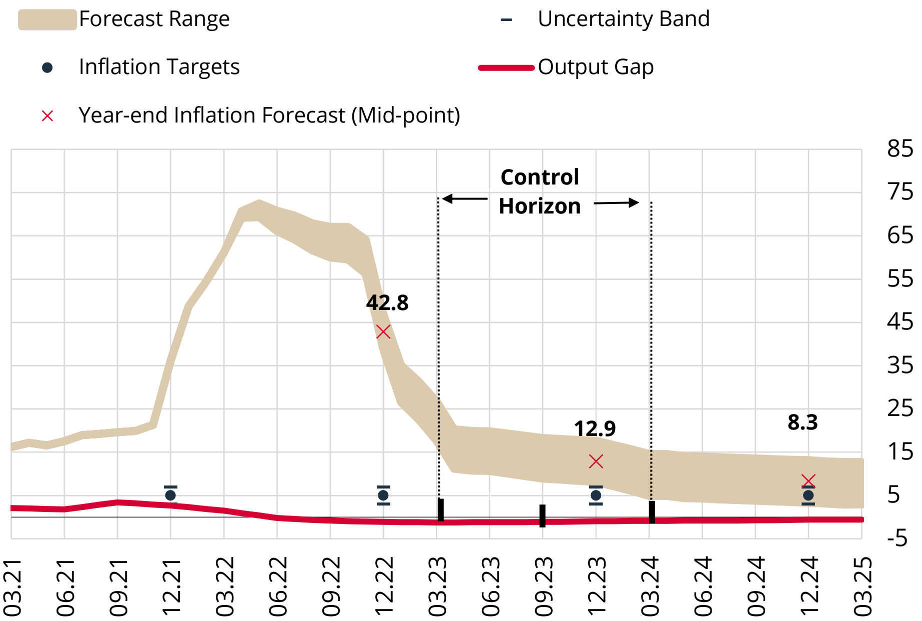
15 April 2022	CBRT	▪ The obligation of exporters to sell 25% of their FX earnings to the CBRT was raised to 40%, effective from 18 April 2022. ▪ The remuneration rate applicable to Turkish lira reserve requirements was set at 0%, and the implementation regarding the payment of additional remuneration for Turkish lira reserve requirements depending on the conversion of resident real persons' accounts was terminated.
18 April 2022	CBRT	▪ With an amendment to the Regulation regarding "Invisible Balances", it was stipulated that in case FX proceeds from FX-earning services/ operations are sold to banks, at least 40% of this amount shall be sold to the CBRT.
20 April 2022	CBRT	▪ Tourism firms were also provided with the facility to use advance loans against investment commitment at an interest rate with reductions of up to 500 basis points in total over the policy rate, against a commitment to generate FX-earning services revenues, invest in tourism development regions, use domestic input, and receive external financing of at least 20%. ▪ The total credit limit was increased to TRY 150 billion, TRY 50 billion of which was allocated to advance loans against investment commitment to be used by firms operating in the tourism sector. ▪ A limit of TRY 250 million was allocated to firms with an SME status, and TRY 1.5 billion to other firms.
23 April 2022	CBRT	▪ It was decided that TRY commercial cash loans (excluding the exempt loans), which had been extended in four-week periods since 1 April 2022, should be subject to a reserve requirement of 10% of the said loans during the maintenance periods of four-week. Moreover, it was stipulated that banks with a loan growth rate above 20% by 31 May 2022 compared to 31 December 2021 should be subject to a reserve requirement of 20% of the difference between their outstanding loan balances on 31 March 2022 and 31 December 2021, for a period of six months. ▪ It was decided to differentiate FX deposit/participation fund reserve requirement ratios depending on the conversion rate of real persons' FX accounts to TRY accounts. Accordingly, an additional reserve requirement of 500 basis points will be applied for banks with a conversion rate below 5%, and of 300 basis points for banks with a conversion rate between 5% and 10%.
25 April 2022	CBRT	▪ The waiver limit for the implementation of repatriation of export proceeds was reduced from USD 30,000 to USD 15,000.

1.2 Medium-Term Projections

***In the first quarter of 2022, consumer inflation and the B index reached 61.14% and 51.34%, exceeding the forecast range of the January Inflation Report*.** The deviation in forecasts was driven by temporary effects of pricing behaviors detached from economic fundamentals, the rise in energy costs due to the ongoing hot conflict, increase in food and agricultural product prices and strong adverse supply shocks such as supply chain disruptions.

The monetary policy stance will continue to be determined with the focus on evaluating the sources of the risks to inflation, their permanence and how they can be controlled by monetary policy, targeting sustainable price stability with a solid approach. The steps which focus on liraization to build price stability on a sustainable ground have been reinforcing the monetary transmission mechanism via various channels. Thus, the disinflationary effects of monetary policy decisions will become more visible and permanent following the resolution of the ongoing conflict and elimination of the base effects in inflation. Accordingly, inflation is projected to be 42.8% at the end of 2022; fall to 12.9% at the end of 2023; and fall to 8.2% by the end of 2024. With a 70% probability, inflation is expected to be between 46.9% and 38.7% (with a mid-point of 42.8%) at end-2022, and between 17.7% and 8.1% (with a mid-point of 12.9%) at end-2023, and between 13.2% and 3.4% (with a mid-point of 8.3%) at end-2024 (Chart 1.2.1).

Chart 1.2.1: Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT.
* Shaded area denotes the 70% confidence interval for the forecast.

Geopolitical risks that turned into a conflict have increased downside risks to the global economic activity. The recovery in the global economy continues albeit with some slowdown. Nevertheless, geopolitical risks that turned into a conflict coupled with new variants of the pandemic keep downside risks to the global and regional economic activity in place and cause uncertainties to increase even more. The recovery in global demand, the high course of commodity prices, supply constraints becoming more evident in some sectors, particularly in the energy sector, and the elevated level of transportation costs lead to an increase in producer and consumer prices on a global scale. Central banks of advanced economies consider that inflation may continue to increase for a longer period than expected due to rising energy prices and the supply-demand mismatch. Although concerns about the pandemic eased, the global risk appetite decreased in the current reporting period due to the rise in global inflation and the conflict between Russia and Ukraine. Moreover, in this period, exchange rate volatility implied by options in emerging economies increased.

The output gap is expected to decline gradually. Due to geopolitical risks, rising energy costs and risks related to possible supply shortages, downside risks to foreign demand are higher compared to the previous reporting period, and they indicate that regional divergences may become more severe. While the commercial loan-deposit interest spread decreased compared to the previous reporting period, the consumer loan-deposit interest spread increased. The goal is to make sure that market interest rates are formed in line with policy rates and at a level that supports the financing of investments and production. While on the one hand, exports and the current account balance, as well as investments and the employment are supported by targeted loans, on the other hand, macroprudential measures are taken to make sure that credit growth and credit composition contribute to the disinflationary process. Thus, the output gap is expected to contribute more to the disinflationary process.

The steps taken within the scope of the liraization strategy will be used decisively until strong indicators pointing to a permanent decrease in inflation are formed. The effectiveness of monetary policy will increase as a result of the increase in the weight of the Turkish lira in the balance sheets of households, companies and banks, the Turkish lira being the main payment instrument, and the development of loans with a speed and composition that will increase production and export capacity. The stability to be achieved in the general level of prices over time with the decisions taken within the framework of the liraization process, the decrease in country risk premiums, the continuation of reverse currency substitution and the upward trend in foreign exchange reserves, and the permanent decline in financing costs will positively affect macroeconomic stability and financial stability. In line with the goal of sustainable price stability in monetary policy, a liraization-oriented approach that also takes into account the risks to financial stability will continue to be conducted.

1.3 Key Risks to Forecasts

The outlook underlying the medium-term projections presented in the Inflation Report is based on the Monetary Policy Committee's judgments and assumptions. The major downside and upside macroeconomic risks that may lead to a change in baseline projections and the associated monetary policy stance are as follows.[1]

In this reporting period, the key risk factors on economic activity and inflation have been the Russian-Ukrainian conflict and the developments regarding the conflict. Geopolitical developments and the rise in commodity prices, particularly in energy prices, have kept downside risks to expectations for global and regional economic activity for 2022 in place and fueled uncertainties. The conflict has the potential to affect the global economy, particularly the euro area, through commodity prices, supply and trade channels and this increases risks to the global growth outlook.

Downside risks to foreign demand have increased compared to the previous reporting period and they indicate that regional divergences may become more evident. Capacity utilization levels and other leading indicators suggest that domestic economic activity is strong. The uptrend in the number of foreign visitors remains strong on the back of the acceleration of the post-pandemic normalization process and the relaxation of travel restrictions. Even if the Russian-Ukrainian conflict poses risks to travel and transportation revenues, there are factors that can partially compensate for these risks, such as the tourism sector's dynamic structure and firms' market diversification flexibility. Geopolitical risks, developments regarding new variants and waves related to the pandemic and the effects of these developments on domestic and international demand conditions are closely monitored.

There remain upside risks to the current account balance due to soaring energy prices amid the Russia-Ukraine conflict. Despite the continued positive performance of exports and the ongoing recovery in service revenues, the current account deficit is widening due to growing energy imports. A permanently balanced current account at sustainable levels is crucial for price stability.

Global inflation continues to rise sharply, while monetary policy communications of major central banks diverge. Major central banks consider that inflation may remain on the rise for a while due to higher energy prices and supply-demand mismatch. In this context, although there is divergence across their monetary policy communications, they still maintain their accommodative monetary stances and continue with their asset purchase programs, albeit at a reduced pace. The effects of high global inflation on inflation expectations and international financial markets will continue to be closely monitored.

Credit growth is expected to realize in line with economic activity, thus contributing to the disinflationary path. The CBRT considers that the growth rate of loans, including long-term Turkish lira investment loans, and the targeted use of accessed funds for economic activity are important for financial stability. In this sense, the macroprudential policy toolkit will be strengthened with deeper analysis of recent credit developments.

Pressures on producer prices keep mounting. The Russia-Ukraine conflict and additional pandemic restrictions in China's major trade and financial cities created a new wave of supply shocks and aggravated the current supply constraints. Historically high international food prices, rising commodity and energy prices, high transportation costs and supply chain disruptions are the main factors behind these pressures.

Recent data releases indicate that the deteriorated pricing behavior adds to upside risks to inflation. One of the main reasons that cause inflation to accelerate is the increased frequency of price updates and, thus, the decline in the average period for prices to remain unchanged.

1 Evaluations of how and through which channel these risks may affect the inflation forecasts cited in the previous section are summarized in Table 3.3.1.

Survey-based indicators show that inflation expectations continue to rise, while the distribution of expectations points to inflation uncertainty. The volatility in financial markets, pricing behavior and heightened inflation pose an upside risk for the upcoming period through expectations.

The disinflation process may be delayed, should the path of administered price and tax adjustments exceed the path envisaged in this Report. Endorsement of inflation targets by all stakeholders and commitment to the price stability efforts with a common understanding and public accord, along with the determination of macro policies in a coordinated manner in line with the projected disinflation path, will strengthen the effectiveness of the monetary policy.