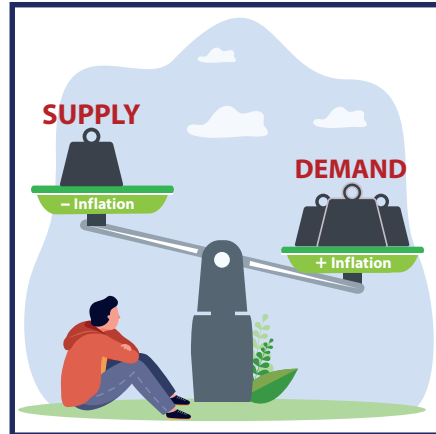


What does this Report tell us? March 2022



Inflation has become a major problem for the country...



...resulting from a major imbalance between supply and demand, which needs to be solved.



The economy is subject to important risks that might affect the correction of those macroeconomic imbalances.



The Central Bank will remain vigilant to the evolution of inflation, always concerned about the welfare of individuals.

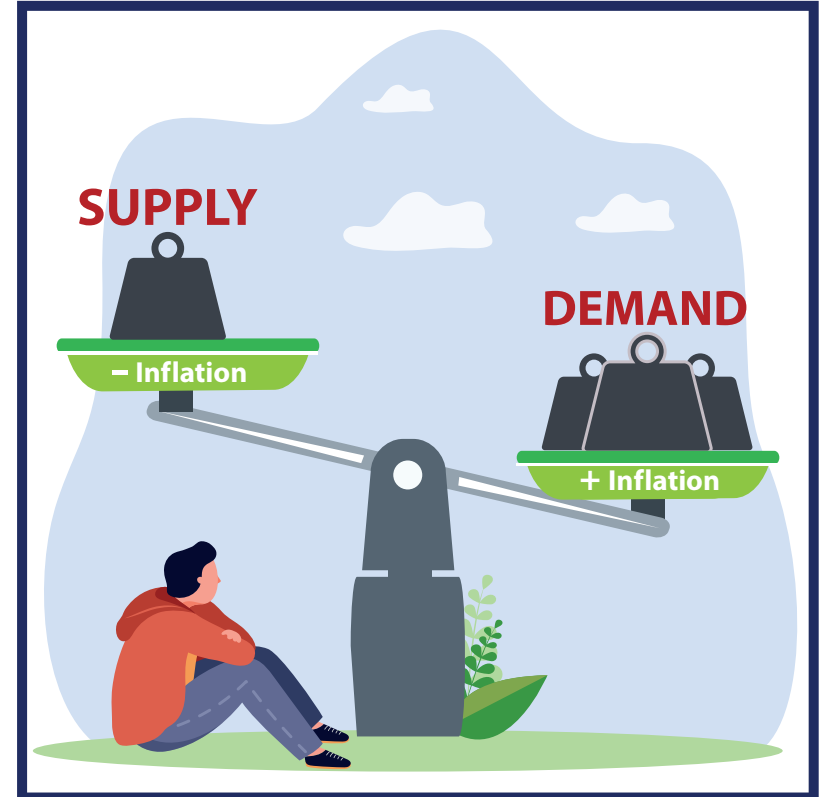
Inflation has become a major problem for the country...

- The CPI's annual change has continued to rise in recent months and now stands at around 8%, unexpectedly high with respect to projections.
- The excessive increase in spending, especially on durable consumer goods, continues to be the main factor behind the rise in inflation.
- Worth noting are the cases of new cars (+20.6% y/y), home repair materials (+16.5% y/y), and home furnishings (+11.7% y/y), whose prices have risen accordingly.



... resulting from a major imbalance between supply and demand, which needs to be solved.

- In recent quarters, personal spending has been boosted dramatically due to various income-support measures applied.
- This led to an excessive increase in consumption, which met with a supply that has been unable to fully recover from the effects of the pandemic and resulting increases in business costs. All this has been accompanied by a significant increase accumulated by the exchange rate over the last couple of years.
- Lowering inflation from its high levels requires solving the imbalance between supply and demand. This means that the GDP growth rate will be very low or even negative for some time.



The economy is subject to important risks that might affect the correction of those macroeconomic imbalances.

- If the factors that have caused this higher inflation are not promptly controlled the problem may become more complex and costlier.
- The speed of this adjustment is also important, as it could have significant effects on the labor market.
- The invasion of Ukraine is an added risk. So far, the greatest impacts have concentrated in the countries in conflict and their neighbors, but this could change if the war is prolonged or spreads to other countries.



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- The Central Bank has continued to raise the monetary policy interest rate so as to encourage people to save and limit their spending. This will help prices to rise more slowly, as they did in the past.
- Maintaining a healthy economy is very important for the country to be able to achieve sustainable growth, create jobs, and keep inflation low and stable.
- This requires reducing the extraordinary impulse of the past two years. Failure to do so will only aggravate the inflation problem and increase the burden on every family in the country.

