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B1 and B3

Inflation seen accelerating in '18 due to TRAIN

Rate may hit 4%, the top end of BSP's target range

By Ben O. de Vera
@bendeveraINQ

Economists expect inflation to have risen by 3.3 percent in December, the same rate as that in November, and to go on an upward trend this year in view of the new or higher taxes slapped on a number of goods under the government's first tax reform package.

IHS Markit Asia-Pacific chief economist Rajiv Biswas, DBS Bank Ltd. economist Gundy Cahyadi and ANZ Research economist for South and Southeast Asia Eugenia F. Victorino projected a 3.3-percent year-on-year rise in the prices of basic goods in December.

Biswas said his forecast reflected "the impact of higher world oil prices in the second half of December."

For 2018, Biswas is projecting an increase in the headline consumer price index (CPI) inflation rate due to the impact of the implementation of the first stage of the Tax Reform for Acceleration and Inclusion Act (TRAIN).

The President signed into law on Dec. 19 package 1A of the TRAIN, which slashed and restructured personal income tax rates while jacking up or slapping new taxes on consumption of oil, cigarettes, sugary drinks and vehicles starting Jan. 1 this year.

Due to higher indirect taxes, the headline inflation rate is seen to reach "the top end of the Bangko Sentral ng Pilipinas' target range of 2-4 percent by mid-2018," he said.

Since the increases in indirect taxes have a temporary impact on headline inflation and will no longer be factored in after 12 months in the CPI calculation, he said "the BSP (Bangko Sentral ng Pilipinas) should look into this temporary factor when assessing the inflation outlook for its monetary policy decision."

"Tighter monetary policy is necessary to keep inflation expectations anchored to the central bank's target range," Victorino said, adding that "the first phase of tax reform will put further upside pressure on headline prices."

In its last meeting for 2017 on monetary policy on Dec. 14, the BSP's Mon-

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* TAX REFORM FOR ACCELERATION AND INCLUSION ACT (TRAIN)

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FROM B1

etary Board had kept key interest rates steady on expectations of a manageable inflation in the near term.

The BSP also maintained its inflation forecasts of 3.2 percent for 2017, 3.4 percent for 2018 and 3.2 percent for 2019.

In the meantime, the December headline inflation forecasts of Nomura economist Euben Paracuelles and University of Asia and the Pacific economics professor Victor A. Abola were slightly higher at 3.4 percent.

"The uptick in food prices during the Christmas season should be offset by lower electricity charges and relatively stable fuel prices," Abola said.

Ateneo de Manila University economics professor Alvin P. Ang and Land Bank of the Philippines market economist Guian Angelo S. Dumalagan projected a slightly lower 3.2-percent hike in consumer prices last month.

"Inflation likely fell to 3.2 percent (in December) mainly due to slower annual increases in oil prices, food costs and government spending. The unexpected appreciation of the peso might have also contributed to lower inflation by making imported goods more affordable in local currency terms," Dumalagan said.

"The rate of increase in consumer prices might pick up in January because of the TRAIN. Weaker inflation gives the BSP more room to keep policy rates steady even as a rate hike this year is still generally expected amid the persistent monetary tightening of the US Fed and the inflationary impact of the country's tax bill," Dumalagan said. INQ