Inflation jumps to 4.5%, fastest pace in 5 years

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Inflation rose to a fresh five-year high of 4.5 percent in April, pointing to a possible interest rate hike by the Bangko Sentral ng Pilipinas (BSP) as early as next week after the government's two to four percent target was breached in the first four months.

The latest inflation figure was higher than the 4.3 percent registered in March and the 3.2 percent recorded in April last year.

The Philippine Statistics Authority (PSA) attributed the uptrend to higher annual increments in alcoholic beverages and tobacco (20 percent), clothing and footwear (2.2 percent) and housing, water, electricity, gas, and other fuels (three percent).

BSP Governor Nestor Espenilla Jr. said inflation could peak earlier than expected.

Monetary authorities were earlier expecting inflation to remain elevated in the third quarter before easing starting the fourth quarter.

"It may peak earlier. Maybe by mid-year," Espenilla said.

ING Bank Manila senior economist Joey Cuyegkeng echoed Espenilla's sentiment that inflation could peak within the next two months.

Cuyegkeng said inflation may hover at a range of 4.8 to 4.9 percent by May or June.

"Although inflation may peak in the next two months, it is likely to remain elevated at above four percent – the upper end of BSP's inflation target range of two to four percent – for the remainder of this year," Cuyegkeng said.

Cuyegkeng said a high inflation environment feeds second-round effects such as demands for higher minimum wages and transport fares.

"Like BSP we expect inflation to return to within the target range in 2019, but if expectations are not contained, this could lead to higher-than-expected inflation," Cuyegkeng said.

The BSP has set an inflation target of two to four percent until 2020. Based on its assessment last March 22, the BSP sees inflation averaging 3.9 percent this year before easing to three percent in 2019.

The BSP said the rising inflation is caused by rising oil prices, as well as the transitory impact of the implementation of Republic Act 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law.

"The proximate cause of discussions we're having now is costpush, because of first round effects of tax reform and oil," Espenilla said.

Espenilla, however, noted the deceleration in the seasonally ad- justed month-on-month inflation. The seasonally adjusted monthon-month inflation eased to 0.3 percent in April from 0.8 percent in January.

"These are relevant factors to consider in determining the necessity and shape of a measured response to halt potential build up in inflationary expectations. Such expectations seem to be feeding off essentially cost-push price pressures that may be transitory in nature," Espenilla said.

The BSP is scheduled to hold a rate-setting meeting on May 10. It has been reluctant in raising interest rates amid rising inflationary pressures, saying the CPI may ease next year.

Socioeconomic Planning Secretary Ernesto Pernia reiterated yesterday the need to liberalize rice trade in the country to drive down prices and control inflation.

Pernia said the quantitative restriction (QR) imposed on rice should be immediately replaced with tariffs to increase supply and significantly drive down prices.

"The price of rice increased by 10 percent from 2017 to 2018 so the QR really has to be removed, rice has to be tariffied. That should be an urgent legislative agenda," Pernia said.

The QR on rice imports is a special privilege granted by the World Trade Organization (WTO), which has been extended three times since it was first imposed in 1995.

This entails restricting the volume of inbound rice shipments to 805,200 metric tons (MT) at 35 percent tariff. Imports outside of this minimum access volume (MAV) are levied higher tariffs.

NEDA is pushing for the amendment of the Republic Act 8178 or the Agricultural Tariffication Act of 1996 to pave the way for the removal of the QR on rice imports and the imposition of the 35 percent tariff rate instead. Estimates earlier done by NEDA shows headline inflation can be reduced by one percentage point if the domestic wholesale rice market reduces its price to the level of imported rice. Even with just a P1 per kilo reduction in the wholesale price of rice, headline inflation rate would also be reduced by 0.3 percentage points.

NEDA said earlier that once the quantitative restriction is replaced by predictable tariffs, the private sector can freely import rice subject to regulation and food safety requirements by the government.

The tariff revenues to be generated would be plowed back to local farmers through the Rice Competitive Enhancement Fund (RCEF) to support projects that will modernize the rice industry and enhance its efficiency, it said.

Part of the fund will be used to directly support rice farmers, especially those who will initially be displaced by the removal of the QR, to diversify into other economic activities.