

Economists see high probability of inflation breaching 2018 target

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Inflation may exceed the central bank's two to four percent target for 2018 due to the implementation of the tax reform law, according to a survey conducted by the Bangko Sentral ng Pilipinas (BSP).

Zeno Ronald Abenoja, director at the BSP's Department of Economic Research, said the central bank's Private Sector Economists' Survey for March showed there was a 56.3 percent probability that inflation would rise within the 4.1 to 5 percent band.

On the other hand, Abenoja said economists believe there was a 40.3 percent chance that average inflation for 2018 would settle between the two and four percent range.

"Analysts noted that risks to inflation in 2018 remain tilted to the upside," he said.

Abenoja said possible upside risks to inflation include the implementation of Republic Act 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law, the continued rate hikes by the US Federal Reserve, and the planned reduction in the reserve requirement ratio by the BSP. Abenoja said economists also cited possible secondround effects of the TRAIN Law such as higher wages and transport fares, as well as the rise in the prices of goods and services due the tax reform law.

Other risks, he said, include higher and volatile global oil prices, rise in utility rates, the weakening of the peso against the dollar, and higher

government spending on infrastructure under the Duterte administration's Build Build Build program.

For 2019, Abenoja said the respondents assigned a 65.8-percent probability that inflation would fall within the two to four percent target range.

The survey, he added, showed private sector economists see inflation averaging 4.1 percent this year before easing to 3.7 percent next year and further to 3.6 percent in 2020.

The consumer price index averaged 3.8 percent in the first three months after rising up to 4.3 percent in March from the revised 3.8 percent in February based on 2012 prices.

Based on its latest assessment, the central bank sees inflation averaging 3.9 percent this year before easing to three percent next year.

Amid the rising inflationary pressures, the BSP has been reluctant in raising interest rates, arguing inflation expectations remain well anchored as it is expected to ease within the two to four percent target next year.

The central bank has maintained an accommodative policy stance over the past three years to support the growing economy through low interest rates. It last raised benchmark interest rates in September 2014.