

# Inflation overshoots target, hits 4.3% in March

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The nationwide inflation rate continued to accelerate in March, raising the possibility of a continued increase in prices until the third quarter amid the transitory effects of the implementation of the new tax law.

Allianz PNB		Net Asset Value Per Unit of the Investment Funds* of Unit-Linked Products	
	April 04, 2018	March 26, 2018	
PESO FIXED INCOME FUND	2,190,109	2,087,594	
PESO BALANCED FUND	2,505,445	2,508,136	
PESO EQUITY FUND	3,217,773	3,222,001	
PESO OPTIMIZED DIVIDEND EQUITY FUND	0,975,816	0,973,538	
PESO MONEY MARKET FUND	1,028,709	1,028,458	
PESO MULTI-SECTOR EQUITY FUND	0,998,572	0,997,189	
PESO DYNASTY EQUITY FUND	0,933,017	0,929,227	
DOLLAR FIXED INCOME FUND	2,005,704	2,000,470	
DOLLAR FLEXI ASIA BOND FUND	1,025,569	1,024,490	
DOLLAR INCOME AND GROWTH FUND	1,069,961	1,060,760	
DOLLAR GLOBAL EQUITY FUND	1,149,271	1,175,280	
DOLLAR FLEXI ASIA DIVIDEND PAYING BOND FUND	0,974,650	0,973,811	
		March 26, 2018	
DOLLAR INCOME OPTIMIZER FUND 1		1,024,746	
VIP SUMMIT PESO FUND 1		0,825,455	
VIP SUMMIT DOLLAR FUND 1		0,839,441	
TRUE NORTH FUND 1		0,909,130	
GLOBAL TREASURES FUND 1		0,993,980	
HIGH STREET PESO FUND 1*		0,999,104	

\*These investment funds are linked to variable life insurance contracts and are not mutual funds. They are subject to regulations by the Insurance Commission.  
\*The participation rate of High Street Peso Fund 1 in any positive return of the underlying index at maturity is 100.34%.

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Inflation rose to 4.3 percent in March from the revised 3.8 percent in February based on 2012 prices, the Philippine Statistics Authority (PSA) reported yesterday. It was also higher than the government's inflation target of two to four percent for the year.

The PSA said the latest inflation figure was the highest since inflation averaged 4.2 percent in August 2014. The PSA only provided inflation data using the 2012 series starting January 2013.

Inflation in the first quarter using the 2012 base year averaged 3.8 percent, closer to the higher end of the two to four percent target set by the Bangko Sentral ng Pilipinas (BSP) for this year.

The PSA has rebased the inflation index to 2012 prices from the previous series using the 2006 prices as part of the protocol of statistical rebasing regularly done every six years.

Higher annual rates were noted in the food and non-alcohol beverages; alcoholic, beverages and tobacco; housing, water electricity gas and other fuels; furnishing, household equipment, and routine maintenance of the house; health; communication; as well as restaurant and miscellaneous goods and services.

According to the PSA, the food index accelerated to 5.7 percent in March from 4.8 percent in February. Higher price mark-ups were noted in rice, corn, fish, fruits and vegetables.

Based on the old series using the 2006 base year, inflation leapt to 4.8 percent in March from 4.5 percent in February. This brought average inflation to 4.4 percent in the first quarter, well above the two to four percent target set by the central bank.

“Monetary authorities would carefully evaluate the appropriateness of a measured policy response to firmly anchor inflation

From B1 expectations in line with our forecast that inflation targets will continue to be met in 2018 and 2019,” BSP Governor Nestor Espenilla Jr. said.

Despite upward risks brought about by the implementation of the new tax reform law, the Monetary Board kept interest rates unchanged on hopes that inflation would ease starting the fourth quarter.

The central bank has maintained an accommodative stance over the past couple of years through a low interest rate regime to support the country's expanding economy. It last raised interest rates by 25 basis points in September 2014.

"There's a pick-up in inflation that we recognize. Markets are already factoring this," Espenilla said.

The Monetary Board is scheduled to hold its next ratesetting meeting on May 10.

"This can allow as well for orderly adjustment in market rates and in the peso. We are closely monitoring the situation," Espenilla said.

Based on its assessment last March 22, the BSP expects inflation to settle at an average rate of 3.9 percent this year before easing to three percent next year.

In a separate statement on the medium-term view on inflation, the BSP said inflation would average near the highend of the target range in 2018 before decelerating further to the midpoint of the target range in 2019.

"The elevated path of inflation in 2018 along with rising inflation expectations will be continually assessed to guard against potential second-round effects from developing and inflation becoming broader based," the BSP said.

It said non-monetary measures such as institutional arrangements in setting transportation fares and minimum wages, unconditional cash transfers, as well as transport subsidies are expected to help mitigate these inflationary pressures.

In addition, the proposed reforms in the rice industry could also help temper price pressures, it said.

"The BSP's decision on the monetary policy stance will remain data-dependent. The BSP will remain vigilant in evaluating price conditions and is ready to take appropriate measures as necessary to ensure that inflation over the policy horizon remains consistent with the target," the central bank said.

Maybank ATR Kim Eng Securities head of research Minda Olonan said inflation may hover at 4.2 percent this year before easing to 3.8 percent next year as the impact of the implementation of the tax reform law was in line with expectations.

Olonan said the BSP may raise benchmark rates by 50 basis points to 3.50 percent this year.

On the other hand, ANZ Research said the elevated inflation in March reflected the combination of effects of tax reforms and food prices.

Meanwhile, the National Economic and Development Authority (NEDA) said the government must continue to be proactive in maintaining price stability to cushion the impact of higher consumer price, following the higher than expected inflation results.

NEDA Officer-in-Charge and Undersecretary for Policy and Planning Rosemarie G. Edillon said proactive measures are vital in managing inflation and mitigating its impact especially on the poor.

"The government remains vigilant to price pressures, especially on food consumed by the poor such as rice," Edillon said.