



Update on TRAIN, inflation, and mitigating measures

As of 11 January 2019

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Inflation and TRAIN

Inflation update

- In December 2018...
 - Year-on-year (YOY) inflation decelerated to 5.1 percent.
 - Month-on-month (MOM) inflation further decelerated to -0.6 percent, from -0.2 percent in November.
- In 2018...
 - Inflation averaged 5.2 percent.
 - This puts the inflation beyond the upper end of the BSP's target of 2 to 4 percent.
 - On the other hand, this is on track with the BSP revised full-year inflation forecast of 5.2 percent.

Inflation update

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Year-on-year	3.4	3.9	4.3	4.5	4.6	5.2	5.7	6.4	6.7	6.7	6.0	5.1
Month-on-month	0.9	0.8	0.5	0.5	0.0	0.6	0.5	0.9	0.8	0.3	-0.2	-0.6
Year-to-date	3.4	3.7	3.8	4.1	4.1	4.3	4.5	4.8	5.0	5.1	5.2	5.2
Source: PSA												

Top 10 drivers of December 2018 inflation ranked by contribution to inflation

Rank	Top contributors to inflation	Contribution to year-on-year inflation (ppt)
1	Rice	0.6
2	Fish	0.6
3	Elec., gas, fuels	0.4
4	Housing rentals	0.4
5	Catering Services	0.4
6	Non-alc bev.	0.4
7	Meat	0.3
8	Tobacco	0.3
9	Public transp.	0.2
10	Vegetables	0.2

Top 10 items with highest inflation rate in Dec 2018

Rank	Commodity group	Price increase (%) between Dec 2017 and Dec 2018
1	Tobacco	29.3
2	Non-alc bev.	13.3
3	Recreational and Cultural Services	11.1
4	Fish	9.9
5	Sugar, Jam, Honey, Chocolate and Confectionery	9.7
6	Postal Services	8.6
7	Vegetables	8.1
8	Hospital Services	7.1
9	Alcoholic Beverages	6.4
10	Out-patient Services	6.3

Main causes of inflation

1. External factors in last twelve months

- US sanction on Iran, among others, that led to **higher world oil prices** at 69.43 dollars per barrel for the full-year 2018.
- Increase in US interest rates and BOP deficit that led to **peso depreciation** to 52.66 pesos per dollar.

Date	USD per barrel	PHP/USD
Jan 2017 TRAIN bill filed	53.37	49.74
May 2017 House passed TRAIN	49.91	49.86
Dec 2017 TRAIN law signed.	60.91	50.30
December 2018	58.64	52.77
Full-year 2017	53.02	50.40
Full-year 2018	69.43	52.66

Sources: BSP and Bloomberg

Main causes of inflation

2. Tax reform

- Higher taxes on oil, cigarettes, and sweetened beverages.
- **But TRAIN contributed little to inflation.**
 - Contribution to inflation is around 0.4 to 0.7 out of the 5.1 percent inflation in December.
 - In other words, for every 100 pesos in additional spending, around 8 to 14 pesos is due to TRAIN.
 - For instance, on average for 2018, of the 10.5 pesos per liter increase in diesel, only 2.8 pesos or 27 percent is due to TRAIN.

Main causes of inflation

3. More money to the people

- We are giving **32.5 billion pesos per month in additional income** to the people.
- Around 90 percent is spent and this is inflationary.

Increase in disposable income	Estimated additional amount per month (PHP billion)
Personal income tax reduction	12.0
Unconditional cash transfer (UCT)	2.0
Wages from more jobs in infrastructure/1	15.0
Free college tuition effect	3.5
Total	32.5

Note: 1/ 30 percent of the government infrastructure spending of PHP 50 billion is labor cost.

Retail sales are still growing strong

Sales and profit growth of selected retailers 2018

	Q1 sales growth (percent)	Q2 sales growth (percent)	Q3 sales growth (percent)
Restaurants			
McDonald's	40.6	33.5	42.4
Jollibee food corporatior	18.8	19.5	21.7
Max's group	10.7	11.9	7.2
Stores and malls			
Sta. Lucia land	25.3	8.2	15.4
Robinsons retail	12.6	13.5	13.2
711	25.8	20.2	22.3
Rockwell land	6.5	28.3	11.2
Star malls	12.9	8.9	9.2
Ayala land	18.8	49.7	14.0
Puregold price club	12.2	14.1	15.5
Megaworld	8.1	11.6	15.6
SM prime	11.1	16.1	15.6
SSI	7.8	13.5	10.3
Century properties	104.5	63.7	84.0

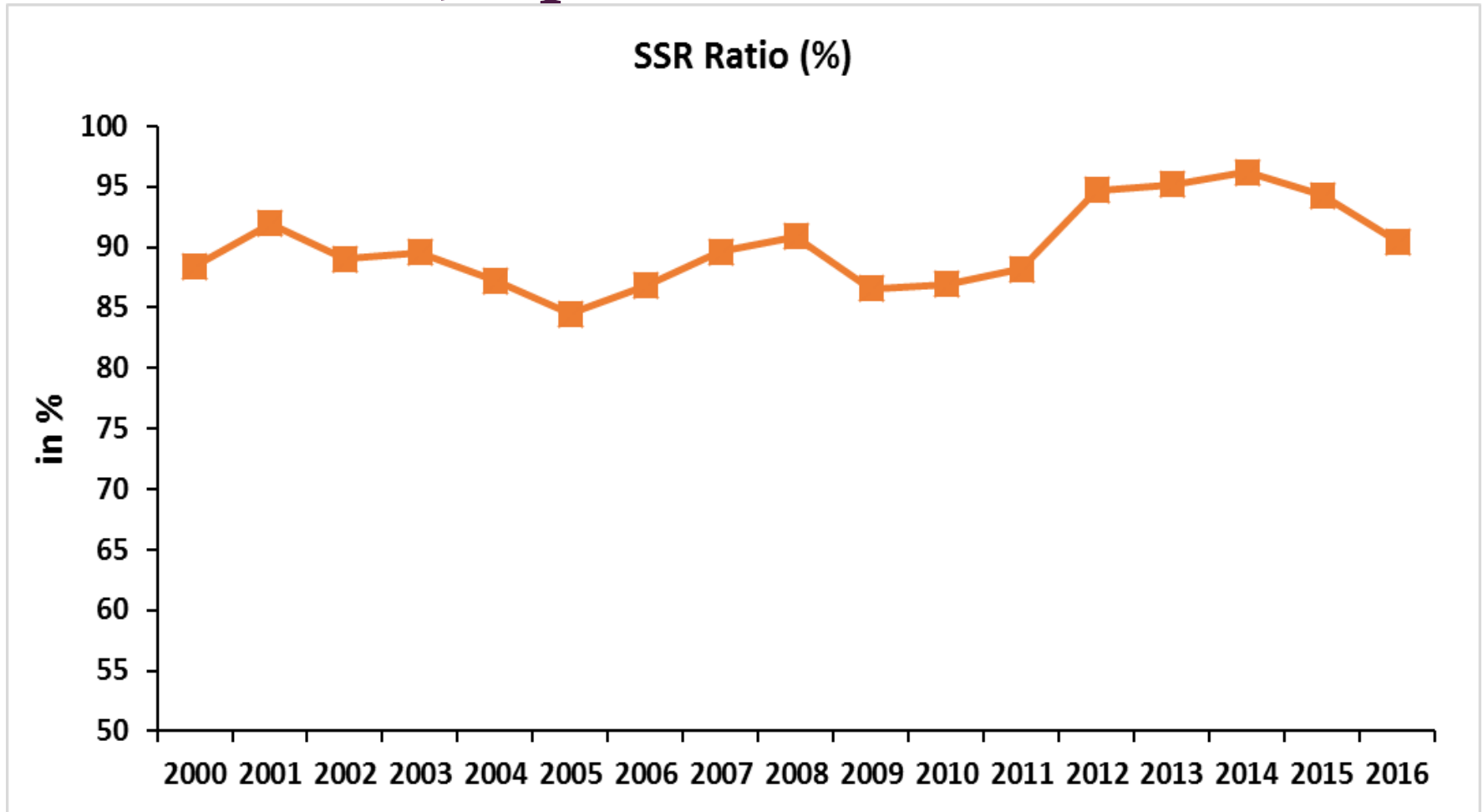
Sources: Bloomberg and company disclosures

Main causes of inflation

4. Rice supply

- NFA did not buy enough palay during harvest season.
- NFA imported to fill the gap but importation was delayed.
- Yet, importation not enough due to quantitative restrictions.
- These reflect underlying issues in rice policy.

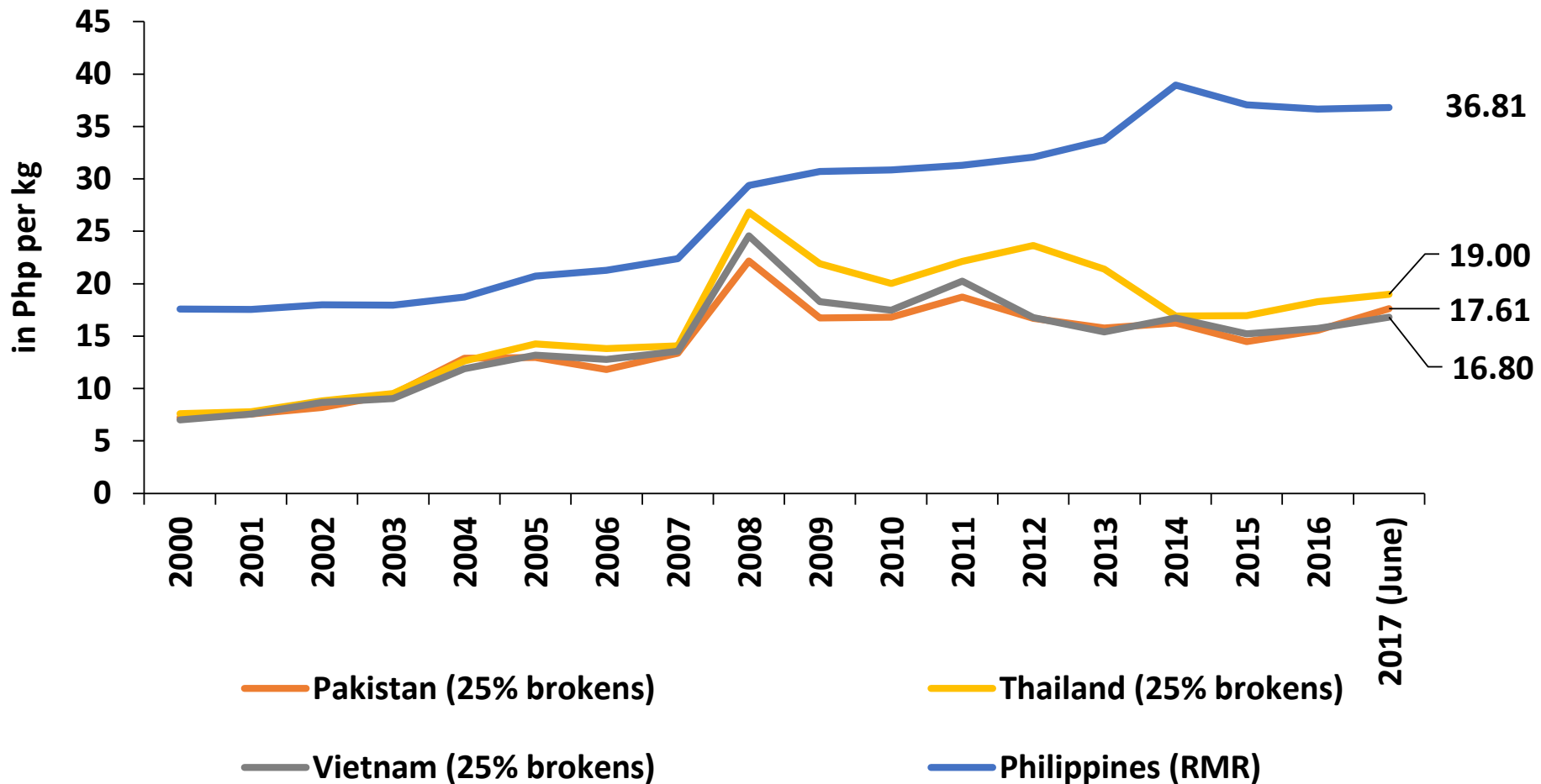
The average self-sufficiency ratio (SSR) was around 90 percent from 2000 to 2016.



Note: Self-Sufficiency Ratio (SSR) = production/total utilization

Source: Basic data from PSA

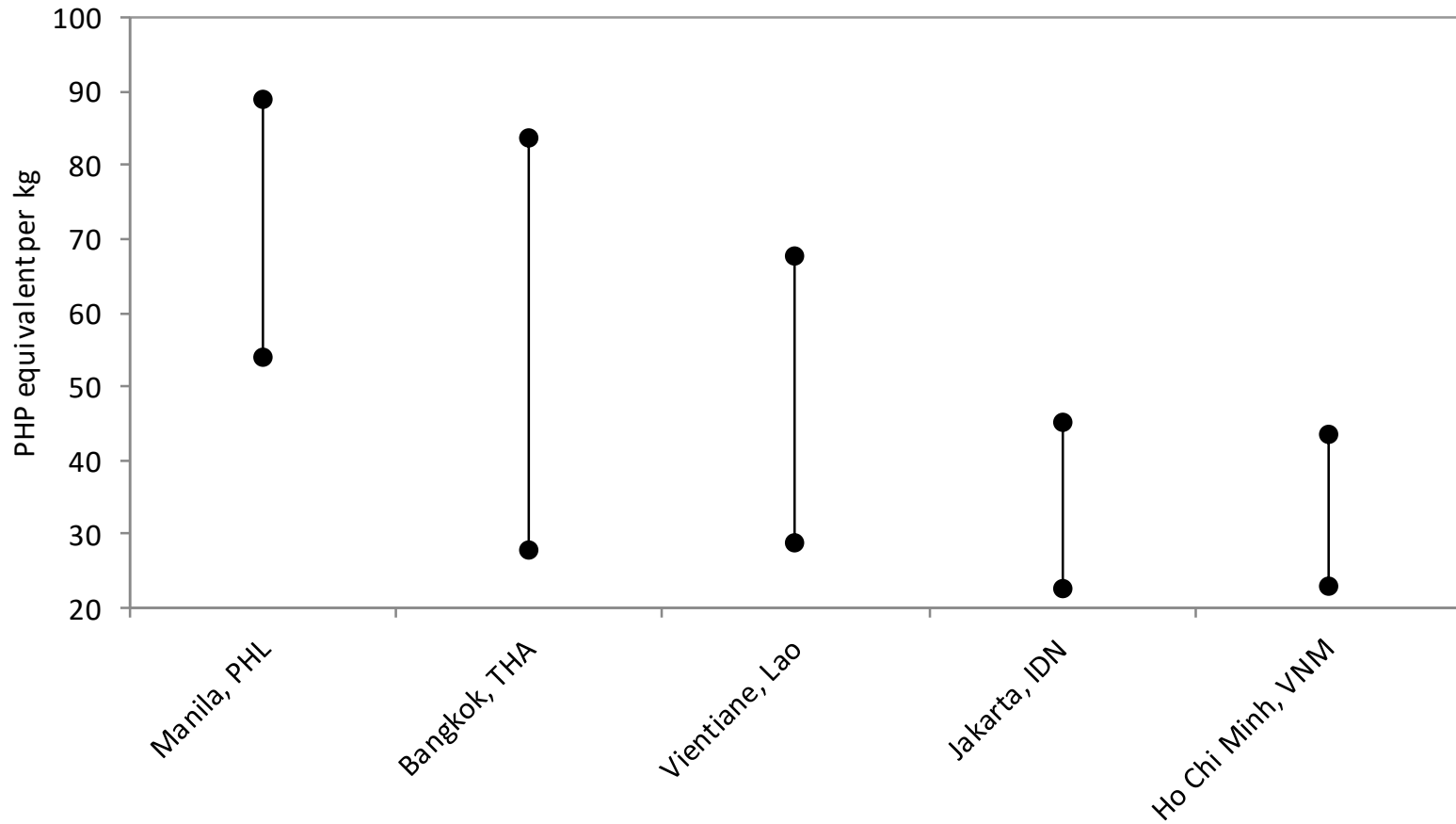
Filipinos pay twice as much for rice compared to other countries.



Note: RMR – regular milled rice
Sources: FAO, PSA and BSP

Filipinos typically pay much more for rice compared to other Asian countries.

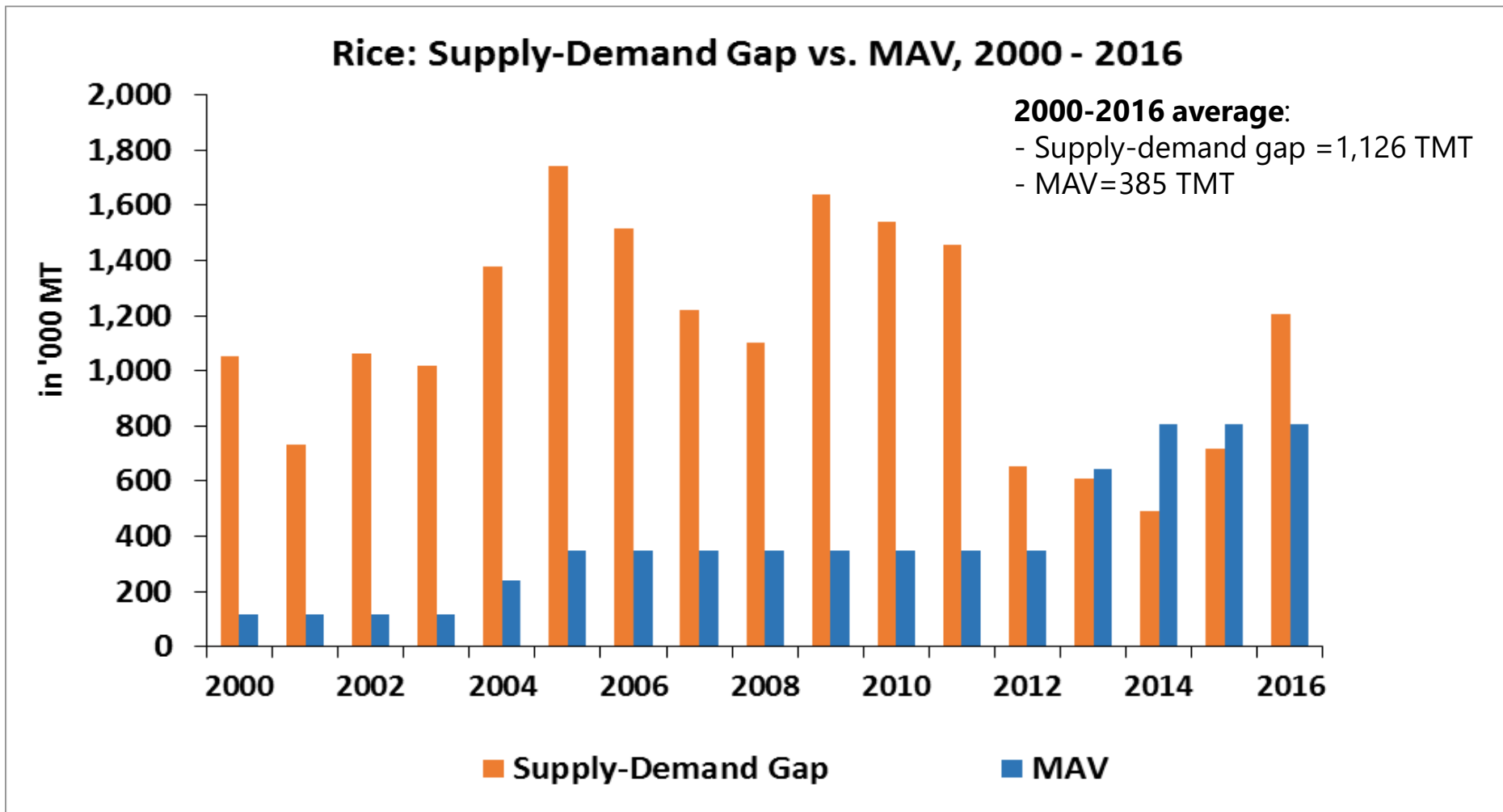
Retail rice prices in local Asian markets, Aug to Sep 2018



Sources: Local rice market surveys by DOF and ADB staff.

Note: Lines represent the range of retail rice prices.

The rice supply-demand gap was not filled-up by the minimum access volume.



Sources: Basic data from PSA and WTO

Key urgent reform: rice tariffication

- **Key provisions**

- NFA mandate limited to emergency buffer stocking.
- Convert quantitative restriction and minimum access volume into tariffs to allow freer importation of rice.
- Remove import licensing.
- Use tariff revenue to improve productivity of agriculture.

- **Potential impact**

- Inflation in 2019 can be 0.85 ppt lower, according to the BSP.
- **Rice price can fall between 2 to 7 pesos per kilo.**
- More competitive manufacturing as pressures to increase minimum wages fall.

Main causes of inflation

5. Better tobacco compliance

- Of the 29.6 percent inflation of tobacco products:
 - One-fifth is due to TRAIN.
 - Four-fifths is due to better tax compliance.
- Mighty, under Japan Tobacco is paying higher taxes from around 1.5 billion per month to around 3.5 billion per month.
- This translates to higher cigarette prices of around 60-80 pesos per pack or around 5-6 pesos per stick from as low as 3 pesos per stick last year.

Main drivers of December 2018 inflation based on contribution

1. In December 2018, rice remains the top driver of inflation, although to a much lesser extent compared to its peak. Its contribution to inflation decreased to 0.6 ppt in December from a full 1 ppt in October. On a MOM basis, however, rice prices fell by 1.7 percent on average compared to last month. Despite the slight decrease, rice prices in general remain elevated due to recent weather disturbances and inadequate imported rice.

- In mid-December, the average retail price of regular-milled rice was recorded at PHP 39.00/kg. This was around 9 percent higher than the prevailing prices in December 2017. However, this is on average lower than the prevailing prices in November by around PHP 1/kg. This is reflected in the negative MOM inflation of rice.
- In order to provide a longer-term and more sustainable solution in bringing down rice prices for all Filipinos, the rice tariffication bill, which removes quantitative import restrictions on rice, is expected to be signed into law by the president very soon. But in the meantime, the National Food Authority (NFA) has approved the importation and entry of 1 million MT of rice for 2019.

Main drivers of December 2018 inflation based on contribution

2. Fish prices continue to remain elevated due to lower supply brought about by the effects of climate change, stricter fishing rules, recent typhoons, and the closed fishing season.

- Intensified implementation of Presidential Administrative Order No. 13 allows the issuance of certificates of necessity by the DA to bring in fish imports into regions with low supply.

Main drivers of December 2018 inflation based on contribution

3. Due to lower crude oil prices, the MOM inflation of electricity, gas, and other fuels turned negative on account of lower household LPG and kerosene prices. On a YOY basis, however, inflation for this commodity group is still high and positive due to the slight increase of 9 centavos in Meralco's electricity rates in December. This represents a culmination of previous rate increases, as around half of the price increase happened pre-TRAIN.

- For consumers in Metro Manila and neighboring areas, the slightly higher electricity rates are due to increases in generation charge which were slightly offset by the reduction in other charges. Consumers faced an average rate of PHP 10.18/kwh in December, which is slightly higher than the PHP 10.09/kwh in November. This implies an increase of PHP 18 in the total bill for a household which consumes an average of 200 kwh/month. However, much of the rate increases happened before December this year, as well as in 2017, and thus the elevated inflation is attributable to the culmination of multiple rate increases from mid-2017.
- With the downtrend in the price of crude, prices of household fuels have also decreased. For instance, the price of LPG went down by around PHP 39 per 11 kg tank, and kerosene by around PHP 0.89 per liter, both since January 2018. Much like gas and diesel, these fuels are both by-products of crude.

Main drivers of December 2018 inflation based on contribution

Electricity, gas, and other fuels

	Rate increases since mid-2017	PHP per kwh	Change in the rate (PHP)
Electricity (Meralco)	Aug-17	8.38	
	Sep-17	9.25	0.86
	Oct-17	9.28	0.03
	Nov-17	9.63	0.34
	Dec-17	9.25	-0.38
	Total 2017		0.85 (48%)
	Jan-18	8.72	-0.53
	Feb-18	9.47	0.75
	Mar-18	10.32	0.85
	Apr-18	10.55	0.23
	May-18	10.00	-0.54
	Jun-18	9.88	-0.13
	Jul-18	10.19	0.31
	Aug-18	10.22	0.03
	Sep-18	10.07	-0.15
	Oct-18	9.97	-0.10
	Nov-18	10.09	0.12
	Dec-18	10.18	0.09
	Total 2018		0.93 (52%)
	Cumulative increase		1.78

Source: Meralco

Main drivers of December 2018 inflation based on contribution

4. The increase in housing rentals reflects the increasing value of properties nowadays as the economy grows.

- Increasing demand for residential units from local professionals and foreign investors across central business districts continue to drive up prices.

Main drivers of December 2018 inflation based on contribution

5. Lower but still elevated inflation in the non-essential **catering services**, apart from the effect of high raw food prices compared to last year, implies that more people are eating out, as the additional take home pay of taxpayers, together with wages from more employment opportunities, are finding its way into restaurants and other retail. Preliminary third quarter data from leading fast food restaurants and retailers shows that their revenues continue to grow by double digits.

Main drivers of December 2018 inflation based on contribution

6. Prices of non-alcoholic drinks, including sweetened beverages, increased by 13.3 percent.

- Even with rising sugar prices, this approaches the expected increase of 15 percent, but is still slightly below it. This is possibly due to slight price absorption by firms as profits fell in some beverage corporations, despite an increase in sales

Main drivers of December 2018 inflation based on contribution

7. Inflation of meat has also decelerated reflecting the stabilization in wholesale and farmgate prices and recovery from recent weather disturbances.

- However, with the increasing consumer demand for meat, prices still remain elevated. We can expect meat prices to further decrease in the coming months as additional supply meets the demand.

Main drivers of December 2018 inflation based on contribution

8. Tobacco prices have increased due to higher excise tax and better tax administration. TRAIN contributed 1.3 pesos per pack from January to June 2018 and 3.8 pesos per pack starting July 2018.

- The excise tax has increased to PHP 35 per pack starting the second half of 2018, from PHP 32.5 in the first half. This, however, only explains a small part of the price increase.
- Much of the increase is due to Mighty Corporation, currently under the management of Japan Tobacco International (JTI), now paying the right taxes, and consequently passing this on to consumers. In part due to higher market prices, particularly in the more affordable variants, other tobacco manufacturers likewise increased their prices, based on market surveys.

Main drivers of December 2018 inflation based on contribution

9. Public transport inflation stayed in the top 10 contributors in December. However, on a MOM basis, public transport inflation turned negative due to the provisional roll-back order which lowers the jeepney minimum fare from PHP 10 to PHP 9.

- As crude prices continue to fall, the Land Transportation and Franchise Regulatory Board (LTFRB) will continue to review the appropriate fare levels in the country.

Main drivers of December 2018 inflation based on contribution

10. Despite positive YOY inflation, prices of vegetables decelerated in December 2018 compared to a month ago. The negative MOM inflation of vegetable prices suggests price normalization from effect of recent weather disturbances.

- Moreover, with the recent end of the typhoon season, we can expect prices of vegetables to further stabilize in the coming months.

Suspending TRAIN means...

1. Inflation in December would be around 4.4 to 4.7 percent instead of 5.1 percent—but this is not much lower.
2. 99 percent of workers will lose some 12 billion monthly in additional take home pay.
3. Almost 90 billion pesos in tax revenues will not be generated.
4. 27 billion pesos less spending in social services.
5. 63 billion pesos less spending in infrastructure.
6. Loss of 93,195 jobs in infrastructure.

- This assumes 500 peso daily wage, 30 percent more in benefits, and 312 days of work per year.

Mitigating measures:

We will help the poor cope with higher prices regardless of the cause.

Social protection programs under TRAIN

We strongly believe that TRAIN should be fully implemented given its strong positive benefits to the people and the economy. To protect the poor and vulnerable, we shall implement the social mitigating measures while ensuring that they are well prepared and targeted so that only intended beneficiaries enjoy them.



Unconditional cash transfer

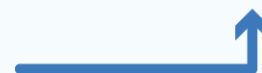


Pantawid Pasada Program



Social welfare programs thru the National ID

- Discounted purchase of rice from the National Food Authority (NFA)
- Free skills training from the Technical Skills and Development Authority (TESDA)
- Fare discount from public utility vehicles



Unconditional cash transfer



IMPLEMENTED BY THE DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT

WHAT IS THE UNCONDITIONAL CASH TRANSFER?

The Unconditional Cash Transfer (UCT) program was introduced as the subsidy component of the TRAIN law to alleviate the estimated impact of the tax reform on the poorest 10 million households and individuals identified using the National Household Targeting System for Poverty Reduction (NHTS-PR), Pantawid Pamilyang Pilipino Program (4Ps), and social pension program of the DSWD.

PROGRESS OF THE PROGRAM

As of January 2019



March 2018

Disbursed cash to 41 percent of total CCT beneficiaries or around 1.8 million poor households

May 2018

Disbursed cash to 81 percent of total CCT beneficiaries or around 3.6 million poor households

June 2018

Rolled out pilot programs for UCT cash distribution to social pension beneficiaries in three regions

Disbursed cash to 3.8 million CCT and social pension beneficiaries

December 2018

Disbursed cash to 8.9 million UCT beneficiaries

First Quarter 2019

Disburse cash to the remaining UCT beneficiaries by the first quarter of 2019

Pantawid Pasada Program



IMPLEMENTED BY THE
DEPARTMENT OF TRANSPORTATION

WHAT IS THE PANTAWID PASADA PROGRAM?

The Pantawid Pasada Program will provide fuel vouchers for Public Utility Jeepneys (PUJs) for qualified franchise holders. This is to mitigate the impact of higher oil prices.

PROGRESS OF THE PROGRAM



BUDGET

May 22, 2018

June 8, 2018

July 16, 2018

**August 28,
2018**

**December
28, 2018**

PHP 977 million already in the unprogrammed appropriations of the General Appropriations Act (GAA) 2018, under "Support for Infrastructure Projects and Social Programs"

DOTr is finalizing the guidelines for the subsidy program based on the last hearing

Guidelines proposed for inter-agency comments

DOTr and LTFRB conducted the pilot launch with 10,000 cards ready for distribution

Synchronized regional fuel card distribution

Total of 71,876 cards distributed

Philippine National ID



IMPLEMENTED BY THE
PHILIPPINE STATISTICS AUTHORITY

WHAT IS THE PHILIPPINE NATIONAL ID?

The National ID System is a prioritized civil registry reform of the government that will ensure a faster and more efficient distribution of the Unconditional Cash Transfer (UCT) to beneficiaries as well as other social welfare services of the government.

PROGRESS OF THE PROGRAM



May 30, 2018

Congress ratified the bicameral conference report

August 6, 2018

Republic Act No. 11055 or the Philippine Identification System Act was signed into law

October 6, 2018

PSA targets the release of the IRR of the PhilSys Act

January 2019

Start of the data capturing of 1 million individuals who are recipients of the unconditional cash transfer program