



# Update on TRAIN, inflation, and mitigating measures

*As of 17 December 2018*

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# Inflation and TRAIN

# Inflation update

- In November 2018...
  - Year-on-year (YOY) inflation decelerated to 6.0 percent.
  - Month-on-month (MOM) inflation further decelerated to -0.2 percent, from 0.3 percent in October.
- In the first eleven months of 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

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

# Top 10 drivers of November 2018 inflation ranked by contribution to inflation

Rank	Top contributors to inflation	Contribution to year-on-year inflation (ppt)
1	Rice	0.8
2	Fish	0.7
3	Elec., gas, fuels	0.5
4	Catering services	0.4
5	Housing rentals	0.4
6	Meat	0.4
7	Personal transp.	0.4
8	Non-alc bev.	0.4
9	Public transp.	0.3
10	Vegetables	0.3

# Top 10 items with highest inflation rate in Nov 2018

Rank	Commodity group	Price increase (%) between Oct 2017 and Oct 2018
1	Tobacco	29.6
2	Personal transp.	15.9
3	Non-alc bev.	13.0
4	Fish	12.5
5	Vegetables	11.5
6	Recreational services	11.1
7	Sugar, jam, honey	10.5
8	Postal services	8.6
9	Rice	8.1
10	Public transport	7.1

# Main causes of inflation

## 1. External factors in last eleven months

- US sanction on Iran, among others, that led to **higher world oil prices** at 67.70 dollars per barrel in November.
- Increase in US interest rates and BOP deficit that led to **peso depreciation** to 52.20 pesos per dollar.

Date	USD per barrel	PHP/USD
<b>Jan 2017</b> TRAIN bill filed	53.37	49.74
<b>May 2017</b> House passed TRAIN	49.91	49.86
<b>Dec 2017</b> TRAIN law signed.	60.91	50.30
<b>November 2018</b>	<b>67.70</b>	<b>52.20</b>



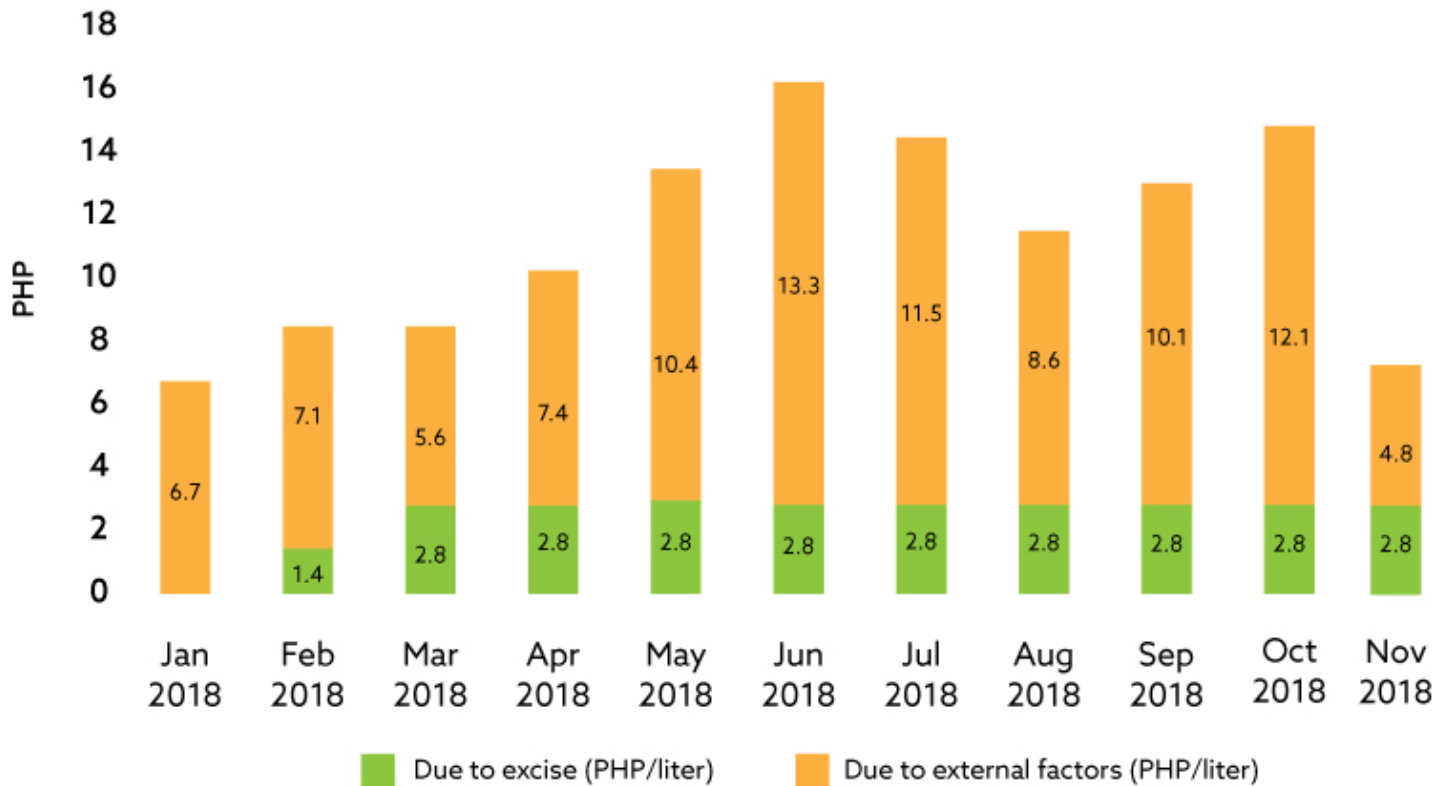
# Main causes of inflation

## 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 6.0 percent inflation in November.
  - In other words, for every 100 pesos in additional spending, around 7 to 12 pesos is due to TRAIN.
  - Of the 7.6 pesos per liter increase in diesel, only 2.8 pesos or 37 percent is due to TRAIN.

# TRAIN contributed only PHP 2.8 of the total PHP 7.2 increase in diesel.

Accounting for the increase in diesel retail prices, YOY 2018, PHP



Source: DOE, Bloomberg, and DOF staff estimates

Note: Due to the required oil buffer stocking, it is assumed that gasoline stations/retailers were still fully selling old stock in Jan 2018, and around half old stock in Feb 2018.

# 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
<b>Total</b>	<b>32.5</b>

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)
<b>Restaurants</b>			
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
<b>Stores and malls</b>			
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

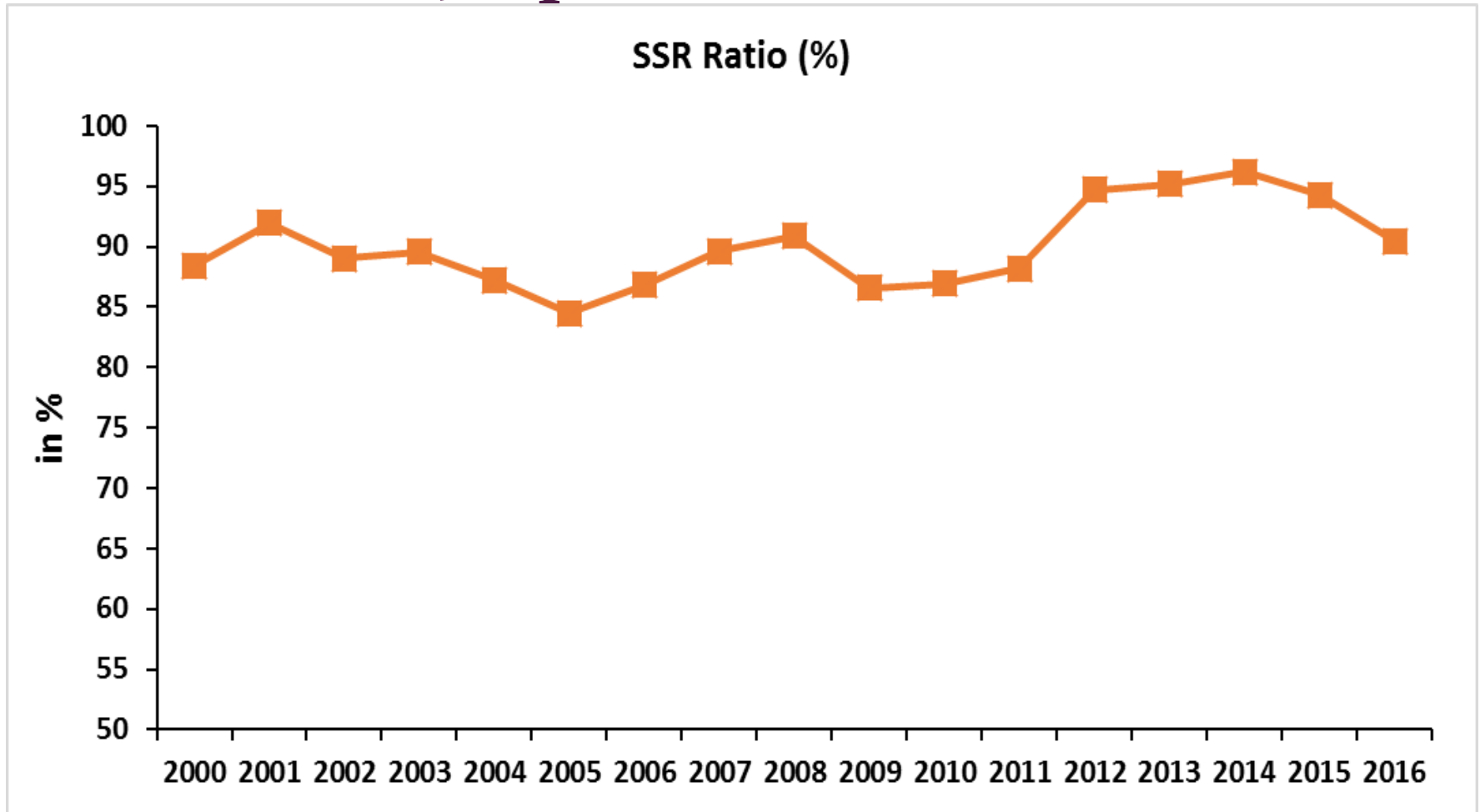
Sources: Bloomberg and company disclosures

# 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.

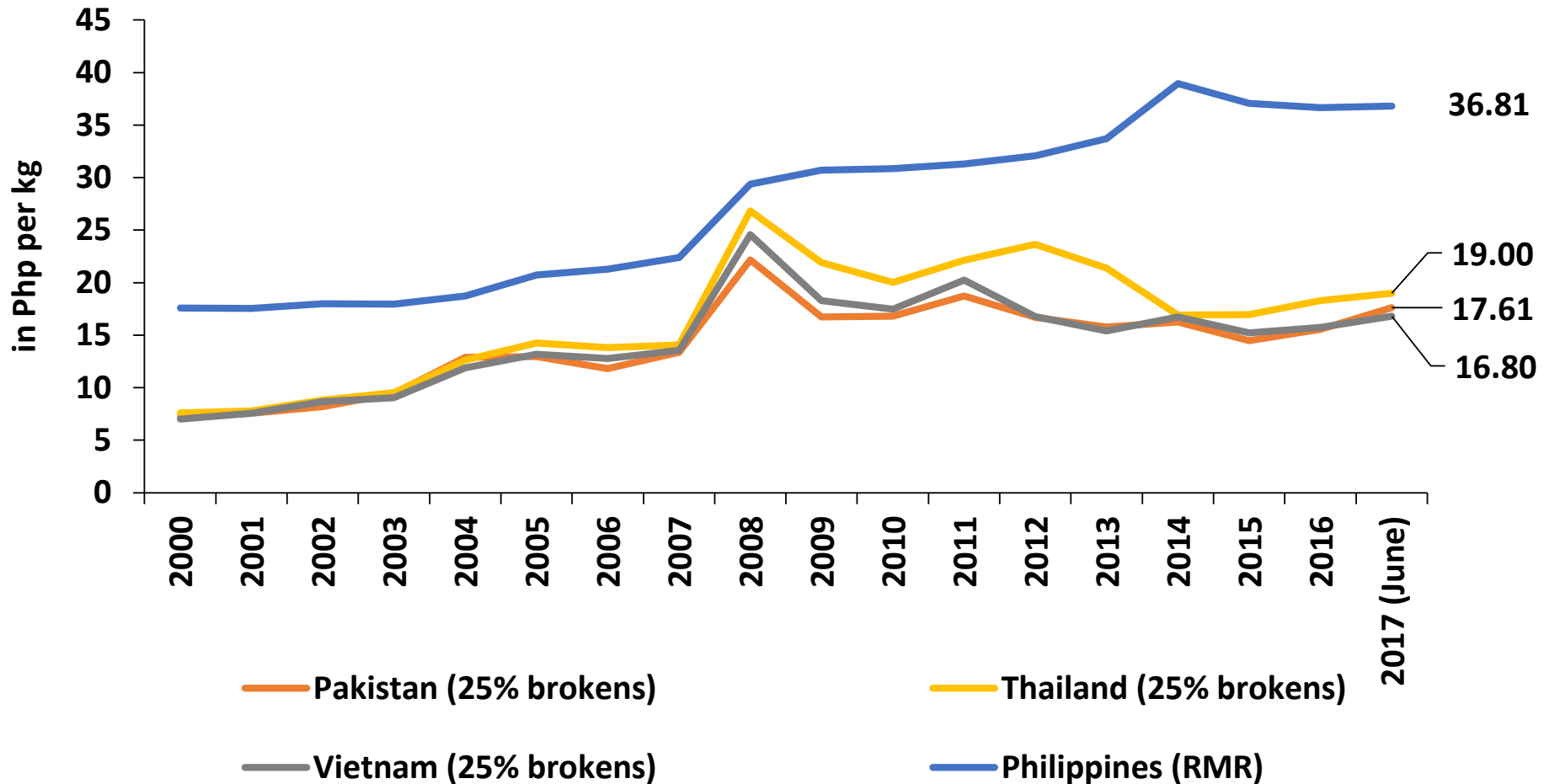
The average self-sufficiency ratio (SSR) was around 90 percent from 2000 to 2016.



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

Source: Basic data from PSA

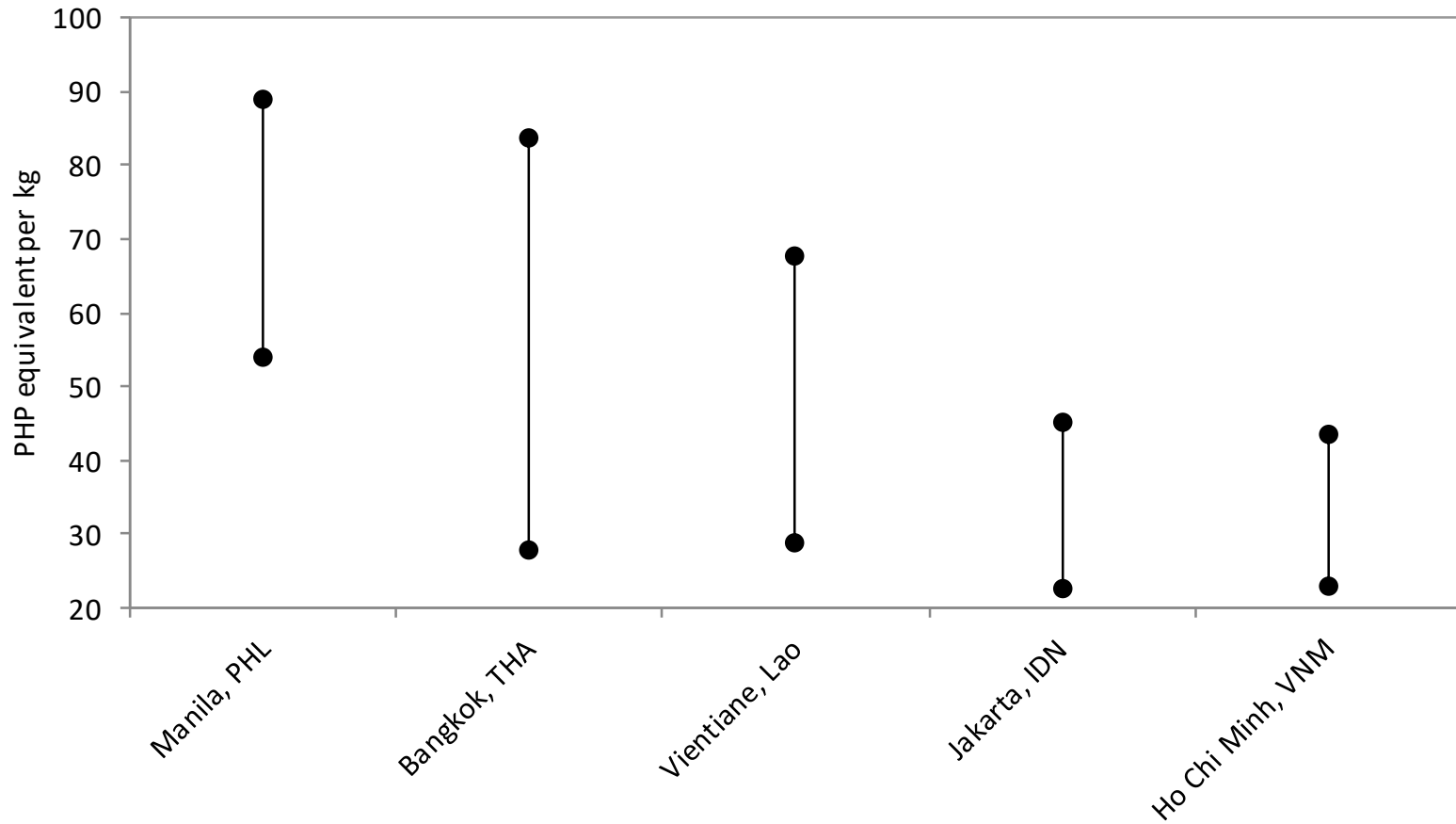
# Filipinos pay twice as much for rice compared to other countries.



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

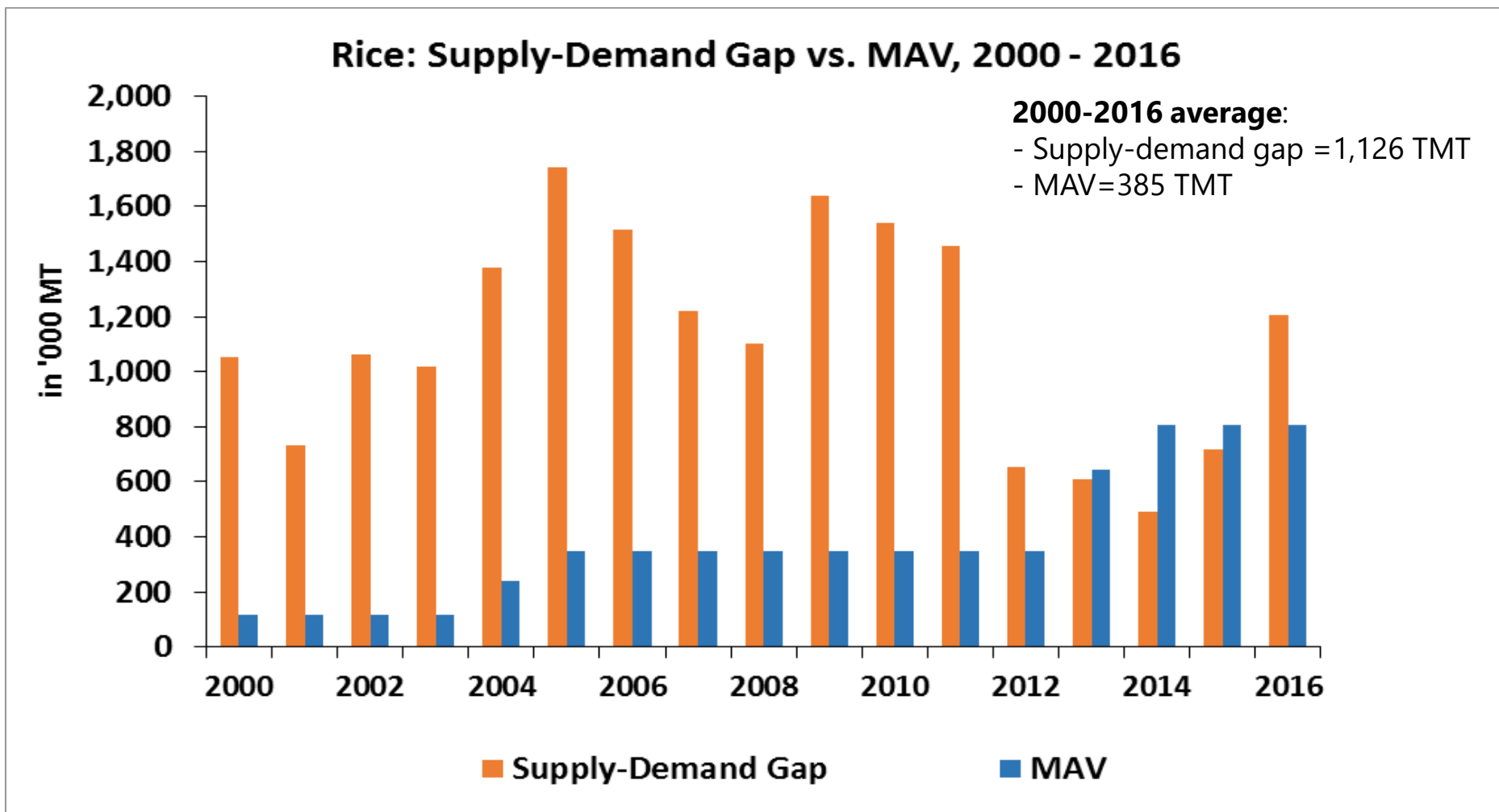


Sources: Local rice market surveys by DOF and ADB staff.

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 0.6 ppt lower.
- **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 November 2018 inflation based on contribution

- 1. In November 2018, rice remains the top driver of inflation, although to a lesser extent. Its contribution to inflation decreased to 0.8 ppt in November from a full 1 ppt in October. Despite this, however, rice prices remain elevated due to recent weather disturbances and inadequate imported rice.**
  - In early-November, the average retail price of regular-milled rice was recorded at PHP 40.67/kg. This was around 14 percent higher than the prevailing prices in November of last year. However, this is on average lower than the prevailing prices in October by PHP 5.05/kg.
  - This is reflected in the negative MOM inflation of rice. To further bring down prices, the National Food Authority (NFA) has approved the importation and entry of an additional 750,000 MT of rice this year and 1 million MT of rice in 2019. On the other hand, the rice tariffication bill, approved in bicam, which is expected to be signed into law by the president very soon, will provide a longer-term and more sustainable solution in bringing down rice prices for all Filipinos.

# Main drivers of November 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 November 2018 inflation based on contribution

**3. The contribution of electricity, gas, and other fuels to inflation increased due to the slight increase of 12 centavos in Meralco's electricity rates. The inflation rate of this commodity group remains elevated due to the culmination of previous rate increases, as around half of the price increase happened pre-TRAIN. The high price of crude oil, especially in early November, also contributed to higher prices of household fuels.**

- 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 10.09/kwh in November, which is slightly higher than the PHP 9.97/kwh in October. This implies an increase of PHP 24 in the total bill for a household which consumes an average of 200 kwh/month. However, much of the rate increases happened before November this year, as well as in 2017, and thus the elevated inflation is attributable to the culmination of multiple rate increases from September 2017.
- Prices of household fuels also increased. For instance, the price of LPG went up by around PHP 95 per 11 kg tank, and kerosene by around PHP 11 per liter, both since the start of the year. Much like gas and diesel, these fuels are both by-products of crude. This means that price increases were primarily driven by the increase in crude oil prices and peso depreciation, as LPG and kerosene are only subject to PHP 1.12 per kg and PHP 3.36 per liter of excise taxes and VAT, respectively, under TRAIN.

# Main drivers of November 2018 inflation based on contribution

## Electricity, gas, and other fuels

	Rate increases since September 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
	<b>Total 2017</b>		<b>0.85 (50%)</b>
	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
	<b>Total 2018</b>		<b>0.84 (50%)</b>
	<b>Cumulative increase</b>		<b>1.69</b>

Source: Meralco

## Main drivers of November 2018 inflation based on contribution

**4. Lower but still elevated inflation in the non-essential catering services, apart from the effect of higher raw food prices, 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 revenues continue to grow by double digits.



# Main drivers of November 2018 inflation based on contribution

## **5. 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 November 2018 inflation based on contribution

**6. 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 decrease in the coming months as additional supply meets the demand.

# Main drivers of November 2018 inflation based on contribution

**7. Private vehicle users faced higher pump prices of diesel and gasoline, which cost PHP 7.6 and 5.2 per liter more, respectively, compared to November of last year. However, on a MOM basis, personal transport inflation decelerated by -5.5 percent, biggest drop among the top 10, largely reflecting the decreasing international oil prices.**

- The part of the price increases, PHP 4.8 for diesel and PHP 2.0 for gasoline, is due to the higher import price of crude (around USD 67.7 per barrel) and peso depreciation (PHP 52.2 to a USD).
- Of the total price increases per liter, only PHP 2.80 for diesel and PHP 2.97 for gasoline are due to TRAIN (excise and VAT included).
- This means that TRAIN accounts for less than 40 percent of the total price increase of diesel.
- On the other hand, gasoline, which is primarily used to fuel the cars of the richer deciles, can absorb the excise due to relatively lower crude oil prices that translated to lower retail prices.

## Main drivers of November 2018 inflation based on contribution

### **8. Prices of non-alcoholic drinks, including sweetened beverages, increased by 12.0 percent.**

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

## Main drivers of November 2018 inflation based on contribution

**9. Public transport inflation entered the top 10 for the first time in 2018, coinciding with the jeepney fare rate hike, which increased from PHP 8 to PHP 10 and took effect in the first week of November.**

- However, the recent sharp decrease in crude oil prices have pushed the Land Transportation and Regulatory Board (LTFRB) to review this decision.
- Recently, they have issued a provisional roll-back order which lowers the jeepney minimum fare from PHP 10 to PHP 9, as they continue to review the appropriate fare levels in the country.

## Main drivers of November 2018 inflation based on contribution

### **10. Despite positive YOY inflation, prices of vegetables decelerated in November compared to a month ago.**

- The negative MOM inflation of vegetable prices in November 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 November would be around 5.3 to 5.6 percent instead of 6.0 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



**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

**November 30, 2018**

Disbursed cash to 8.1 million UCT beneficiaries

**December 2018**

Disburse cash to the remaining UCT beneficiaries by December 2018

# 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  
1, 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 67,721 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