



# Update on TRAIN, inflation, and mitigating measures

*As of 14 February 2019*

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# Inflation in 2019 and TRAIN

# Inflation update

- In January 2019...
  - Year-on-year (YOY) inflation sharply decelerated to 4.4 percent.
  - This is the lowest monthly inflation figure in 10 months, and is more than 2 percentage points (ppt) lower compared to its peak in 2018.
  - Month-on-month (MOM) inflation is low at 0.2 percent.
  - The YTD inflation figure is 0.4 percentage points above the central bank's upper-end target of 4 percent.

# Inflation update 2019

|                       | <b>2018<br/>average</b> | <b>Jan<br/>2019</b> |
|-----------------------|-------------------------|---------------------|
| <b>Year-on-year</b>   | 5.2                     | 4.4                 |
| <b>Month-on-month</b> | 0.4                     | 0.2                 |
| <b>Source: PSA</b>    |                         |                     |

## Top 10 drivers of January 2019 inflation ranked by contribution to inflation

| Rank | Top contributors to inflation | Contribution<br>to year-on-<br>year inflation<br>(ppt) |
|------|-------------------------------|--|
| 1    | Rice                          | 0.5  |
| 2    | Fish                          | 0.4  |
| 3    | Catering services             | 0.4  |
| 4    | Housing rentals               | 0.4  |
| 5    | Elec., gas, fuels             | 0.4  |
| 6    | Non-alc bev.                  | 0.3  |
| 7    | Meat                          | 0.3  |
| 8    | Public transport              | 0.2  |
| 9    | Tobacco                       | 0.2  |
| 10   | Vegetables                    | 0.1  |

# Top 10 items with highest inflation rate in Jan 2019

| Rank | Commodity group                                 | Price increase (%) between Jan 2018 and Jan 2019 |
|------|---|--|
| 1    | Tobacco   | 21.3   |
| 2    | Non-alc bev.                                    | 11.9   |
| 3    | Recreational and cultural services              | 11.2   |
| 4    | Sugar, jam, honey, chocolate, and confectionary | 8.6  |
| 5    | Postal services                                 | 8.6  |
| 6    | Fish  | 7.8  |
| 7    | Out-patient services                            | 6.8  |
| 8    | Food products N.E.C                             | 5.8  |
| 9    | Vegetables                                      | 5.6  |
| 10   | Hospital services                               | 5.5  |

# Main drivers of January 2019 inflation based on contribution

**1. In January 2019, rice remains the top driver of inflation, although to a much lesser extent compared to its peak. Its contribution to inflation decreased to 0.5 ppt in January from a full 1 ppt in October 2018. On a MOM basis, however, rice prices fell by 0.7 percent on average compared to last month. Despite the slight decrease, rice prices in general remain elevated due to inadequate imported rice.**

- In mid-January, the average retail price of regular-milled rice was recorded at PHP 41.45/kg. This was around 6 percent higher than the prevailing prices in January 2018. However, this is on average lower than the prevailing prices in December 2018 by around PHP 0.40/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 January 2019 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 January 2019 inflation based on contribution

**3. 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 establishments.**

- Preliminary third quarter data from publicly listed fast food restaurants and retailers shows that their revenues continue to grow by double digits.

## Main drivers of January 2019 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 January 2019 inflation based on contribution

**5. Due to lower crude oil prices, the MOM inflation of electricity, gas, and other fuels continues to be 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 culmination of previous electricity rate increases, as around half of the price increase happened pre-TRAIN.**

- For consumers in Metro Manila and neighboring areas, the slightly lower electricity rates are due to the reduction in the cost of power from Meralco's power supply agreements. Consumers faced an average rate of PHP 9.84/kwh in January 2019, which is slightly lower than the PHP 10.18/kwh in December 2018. This implies a decrease of PHP 68 in the total bill for a household which consumes an average of 200 kwh/month. Despite the decrease, electricity is still a top contributor to inflation since multiple rate increases happened in 2017 and 2018. Elevated electricity prices thus reflect cumulative rate increases since September 2017 (Table 6).
- With the downtrend in the price of crude, prices of household fuels have also decreased further. For instance, the price of LPG went down by around PHP 28 per 11 kg tank, and kerosene by around PHP 1.42 per liter, both since January 2018. Much like gas and diesel, these fuels are both by-products of crude.

# Main drivers of January 2019 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                    |
|                       | <b>Total 2017</b>             |             | <b>0.85</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                     |
|                       | Dec-18                        | 10.18       | 0.09                     |
|                       | <b>Total 2018</b>             |             | <b>0.93</b>              |
|                       | Jan-19                        | 9.84        | -0.34                    |
|                       | <b>Total 2019</b>             |             | <b>-0.34</b>             |
|                       | <b>Cumulative increase</b>    |             | <b>2.12</b>              |
|                       | Source: Meralco               |             |                          |

## Main drivers of January 2019 inflation based on contribution

**6. Prices of non-alcoholic drinks, including sweetened beverages, increased by 11.9 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 i) a slight price absorption by firms as profits fell in some beverage corporations, despite an increase in sales, and ii) the base effect of the partial implementation of the sweetened beverage tax in January 2018, as the pre-TRAIN inventory of retailers and producers run out.

## Main drivers of January 2019 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 January 2019 inflation based on contribution

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

- As crude prices continue stay at lower levels especially when compared to most of 2018, the Land Transportation and Franchise Regulatory Board (LTFRB) will continue to review the appropriate fare levels in the country.



# Main drivers of January 2019 inflation based on contribution

**9. 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, which is currently under the management of Japan Tobacco International (JTI). They are now paying the right taxes, and consequently passing this on to consumers. In part due to higher market prices for all tobacco products, but more in particular for the more affordable variants, other tobacco manufacturers likewise increased their prices, based on market surveys.

## Main drivers of January 2019 inflation based on contribution

**10. Despite positive YOY inflation, prices of vegetables decelerated in January 2019 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. 99 percent of workers will lose some 12 billion monthly in additional take home pay.
2. Almost 90 billion pesos in tax revenues will not be generated.
3. 27 billion pesos less spending in social services.
4. 63 billion pesos less spending in infrastructure.
5. 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**

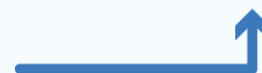


**Pantawid Pasada Program**



**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

**January 2019**

Disbursed cash to 9.2 million UCT beneficiaries

**June 2019**

Disburse cash to the remaining UCT beneficiaries

# 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**

**January 15,  
2019**

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 74,714 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

**February 2019**

Finalization of PhilSys strategic plan

**September 2019**

Start of PhilSys implementation with target of 6-million Filipinos for registration this 2019