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DOE: Power rate hike due to TRAIN felt by summer

By Ronnel W. Domingo and Doris Dumlao-Abadilla
@InquirerBiz

Power prices may not increase before the summer months, but economists have warned that consumers should be ready for faster rate of increases in prices within the first quarter.

Energy Undersecretary Felix William Fuentebella said electricity prices would likely remain stable until the summer months because power firms usually maintained coal stocks good for at least a month.

"We are still assessing the effect on electricity which we expect to be felt starting March or April," Fuentebella said, adding that fuel-fired power plants may increase prices sooner because they were only required to maintain stocks of 15 days.

As for fuel used by motorists, the Department of Energy (DOE) has released guidelines for oil companies to help the government monitor and implement the Tax Reform for Acceleration and Inclusion (TRAIN) Act.

Oil price watch

Oil firms have been asked to submit inventory reports as of Dec. 31 as well as a daily summary of withdrawal from such stock starting Jan. 1 until it has been used up.

"Implementation of the excise tax under TRAIN shall not be applied unless the (Dec. 31) stocks of finished products are fully exhausted," the DOE said.

Energy Secretary Alfonso Cusi warned oil companies that the new tax law also imposed penalties on violators.

"We remind the consumers and the oil industry participants that violators face the sanctions under the law," Cusi said in a statement.

Faster inflation

But economists said the new taxes would certainly cause faster increases in consumer prices this year, possibly peaking in June and July, before edging down again later in the year.

"The country's inflation rate may pick up to 3.5-4 percent this year from 3.2 percent last year," said University of Asia and the Pacific (UA&P) economist Victor Abola.

"Around 0.6 percentage of the projected inflation rate for 2018," Abola said, could be attributed to the new taxes.

Standard . Chartered economist for Asia, Chidu Narayanan, for his part, also sees inflation in the Philippines

* TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) ACT
* DEPT. OF ENERGY (DOE)

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averaging at 3.5 percent.

"We estimate higher infrastructure investment and the tax reform to add about 0.3-0.5 percentage points to headline inflation," Narayanan said.

Narayanan expects inflation to edge up in 2018, boosted by domestic demand and the tax reform, peaking in June-July, before coming down again.

"We retain our view that inflation is not a worry for the Philippines," he said. "We see inflation averaging only 3.5 percent year-on-year in 2018."

Still within target

Still, these inflation projections are within the Bangko Sentral ng Pilipinas' (BSP) inflation target range of 2-4 percent.

On Friday, it was reported that December inflation stood at 3.3 percent year-on-year, or in line with expectations.

But UA&P's Abola said the impact of higher inflation on 40 percent of the country's poorest households would likely be curbed by additional subsidies or conditional cash transfers.

He said these subsidies should offset the adverse impact of higher value-added tax (VAT) on fuel and removal of some exemptions.

For instance, Abola said jeepney drivers could receive such subsidies to cover the additional cost of higher petroleum products.

"I think that's the way it's been structured. Of course we have to see how it actually works out, but I think it's very well thought [out]," Abola said.

To minimize the impact of higher prices on basic goods, the government plans to use 30 percent of additional revenues to increase the beneficiaries of its conditional cash transfers from four million families to 10 million families.

But economist Harvey Niere of the Mindanao State University argued the new taxes would only worsen the "income inequality" between the rich and the poor because of higher consumption taxes.

The TRAIN law reduces personal income taxes but imposes new or increased excise taxes.

"The poor will not benefit from lower income tax rate because they are exempted from paying income tax, to begin with," Niere said.

Niere branded the TRAIN law as an "antipoor program," particularly the law's uniform implementation of consumption tax both for rich and the poor. —WITH REPORTS FROM MART SAMBALUD AND ALLAN NAWAL INQ