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Minimal impact of TRAIN on inflation seen

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The Bangko Sentral ng Pilipinas (BSP) said the impact of the new tax law that took effect this year would be minimal at below one percent as the Department of Finance (DOF) expects the consumer price index to have eased to 3.2 percent last month.

BSP Deputy Governor Diwa Guinigundo said the impact of Republic Act 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) law would not warrant a policy response from the central bank's Monetary Board.

"On the TRAIN, the impact on inflation is less than one percentage point. But that hardly justifies a monetary response from the BSP because the impact is on the supply side," he said.

The benign inflation environment and robust domestic demand have allowed monetary authorities to keep an accommodative stance to support the country's expanding economy.

The BSP's Monetary Board last raised interest rates by 25 basis points in September 2014.

Guinigundo said the central bank would only be prompted to respond if second round effects are triggered.

"We shall consider adjusting our monetary stance when second round effects are triggered because the demand side would be upset, generating demand pressure for higher wages and higher transport fares," he added.

Guinigundo said the rice tariffication bill would be a game changer if passed by Congress early this year because liberalizing rice imports would lower the general price of rice.

Rice accounts for nearly nine percent of the consumer basket.

"Our initial estimate puts it at around one percentage point reduction, which on balance could provide some counterweight to the inflationary pressure of the higher excise tax on fuel," the BSP official said.

Guinigundo said the policy towards more open rice importation would allow the government to channel proceeds from rice tariffs to agricultural support like irrigation, warehousing, drying facilities, research on new disease and weather resistant rice varieties.

"This is a superior public support than subsidizing farm gate rice prices," he said.

Guinigundo said the first package of the TRAIN Law signed by President Duterte last Dec. 19, 2017 would allow the government to fund infrastructure projects under the Build Build Build program wherein the government has committed to spend at least P8 trillion until 2022.

"But of course, the tax reform would allow the government to fund infrastructure projects and in the process increase our potential output and in the end enhance the supply situation and mitigate price pressures," he said.

Based on its latest assessment, the Monetary Board sees inflation inching up to 3.4 percent this year before easing to 3.2 percent in 2019.

The BSP has pegged the inflation target at two to four percent between 2018 and 2020.

Inflation averaged 3.2 percent in the first 11 months of last year after easing to 3.3 percent in November from a three-year high of 3.5 percent in October.

For its part, the DOF said inflation likely moderated further to 3.2 percent in December on the back of more stable food prices and lower power costs.

"Low inflation is an indication that the country's macroeconomic fundamentals remain strong," the finance department said in its latest economic bulletin.

Solid fundamentals backed by TRAIN 1 implementation, rice sector reforms as well as Build Build Build policy would push the country's growth to seven to eight percent this year and sustain manageable inflation.

* INFLATION
* TAX REFORM FOR ACCELERATION and inclusion (TRAIN)