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TRAIN puts pressure on prices; BSP ready to take action

January inflation rises to 3-year high

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Inflation rate in January accelerated to 4 percent, the highest in three years, as prices of goods rose following the implementation of higher taxes under the TRAIN Act, the first package of the Duterte administration's comprehensive tax reform program, which took effect January 1, 2018.

Data released by Philippine Statistics Authority (PSA) on Tuesday showed increases in food and non-food prices pushed the country's inflation to 4 percent in the first month of the year, hitting the upper band of the government target. The January, 2018 inflation was higher than the previous month's 3.3 percent and the 2.7 percent in January 2017.

The faster overall price increase of goods can be attributed mainly to the 4.5 percent increase in the food and non-alcoholic beverages segment, which constitutes 39 percent of the consumer basket. Prices of sin products, in particular, increased by 12.3 percent.

Among other non-food commodities that posted higher inflation were transport (3.2 percent from 2.4 percent); restaurant, miscellaneous goods, and other services (3.7 percent from 3.0 percent); health (2.6 percent from 2.2 percent); and furnishings, household equipment, and routine maintenance of the house (2.0 percent from 1.9 percent).

The prices of housing, water, electricity, gas, and other fuels, which account for about 22 percent of the consumer basket, slightly eased to 3.7 percent from 3.8 percent in December.

"The push in inflation is partly due to TRAIN, considering particularly the excise on fuel and additional sin taxes," Socioeconomic Planning Secretary Ernesto Pernia said.

He reiterated, however, that the effects of the TRAIN (Tax Reform for Acceleration and Inclusion), which overhauled the country's tax system for the first time in two decades, would be minimal and temporary.

Bangko Sentral ng Pilipinas (BSP) Governor Nestor A. Espenilla Jr. yesterday said a higher inflation rate in January was something they had expected, but said the spike was a temporary effect of higher excise taxes and oil prices.

"We think these are temporary drivers of inflation and would eventually stabilize," said Espenilla. "Nevertheless, BSP will be closely monitoring the situation and stand ready to take timely action based on our evaluation of all relevant data."

Trade and Industry Secretary Ramon M. Lopez said prices on basic commodities have not increased based on survey.

"But considering world oil prices are going up and the slight depreciation of the peso, cost items are going up, but not due to TRAIN," he said maintaining that the impact of the tax reform program if at all will be about 0.7 percent and one time only.

Lopez expressed confidence that inflation rate will remain within the range.

"Let's just hope world oil prices as well as other commodity prices don't rise further," he said.

For his part, Finance Secretary Carlos Dominguez III said it was hard to believe that the implementation of TRAIN had any significant effect on prices.

"Unless of course merchants took advantage of the law and raised prices on old inventories," Dominguez said in a text message to reporters.

Moving forward, National Economic and Development Authority (NEDA) said the Philippine government must ensure mitigation measures are in place to cushion the transitory inflationary impact of TRAIN law, following recorded increases in the country's inflation rate.

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* TRAIN TAX REFORM FOR ACCELERATION AND INCLUSION

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Equally important are vigilant price monitoring and prompt action to curb profiteering, it added.

TRAIN is the first package of the comprehensive tax reform program (CTRP) envisioned by President Duterte's administration, which seeks to correct a number of deficiencies in the tax system to make it simpler, fairer, and more efficient ta. administration.

The first package of TRAIN reduced the ome taxes of 99 percent of the count. 's income taxpayers.

"With the initial inflationary effects of TRAIN, we must ensure faster provision of financial assistance through the unconditional cash transfer (UCT) program," Pernia said.

This will help the poorest 50 percent of Filipino households cope with the transitory impact of TRAIN on prices, he added.

He also reiterated the agency's call to replace quantitative restrictions on rice imports with tariffs to stabilize the country's rice supply and lower the price of rice.

"When the quantitative restrictions are replaced by tariffs, the government will also be better able to help enhance the country's competitiveness and productivity in agriculture. Revenues from tariff on imported rice will be used to finance government programs for agriculture," Pernia said.

Over the medium term, the fast-tracked infrastructure development in the next few years, including reforms in the energy sector, will ease electricity prices, Pernia noted.

Marita Limlingan, president of Regina Capital Development Corp., said should the next month see no signs of cooling off, "we inclined to expect the BSP [Bangko Sentral ng Pilipinas] to begin hiking rates in March, not even ruling out the possibility of one this Thursday."