



ATENEO CENTER FOR ECONOMIC RESEARCH
AND DEVELOPMENT

Inflation, train and Long term growth

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Ang

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University



≡ SECTIONS Friday, November 30, 2018

INQUIRER.NET

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By: [Kate Matriano](#) - Content Strategist INQUIRER.net / 07:19 PM November 28, 2018



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NEWSINFO

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Inflation at Work:



1998



2008

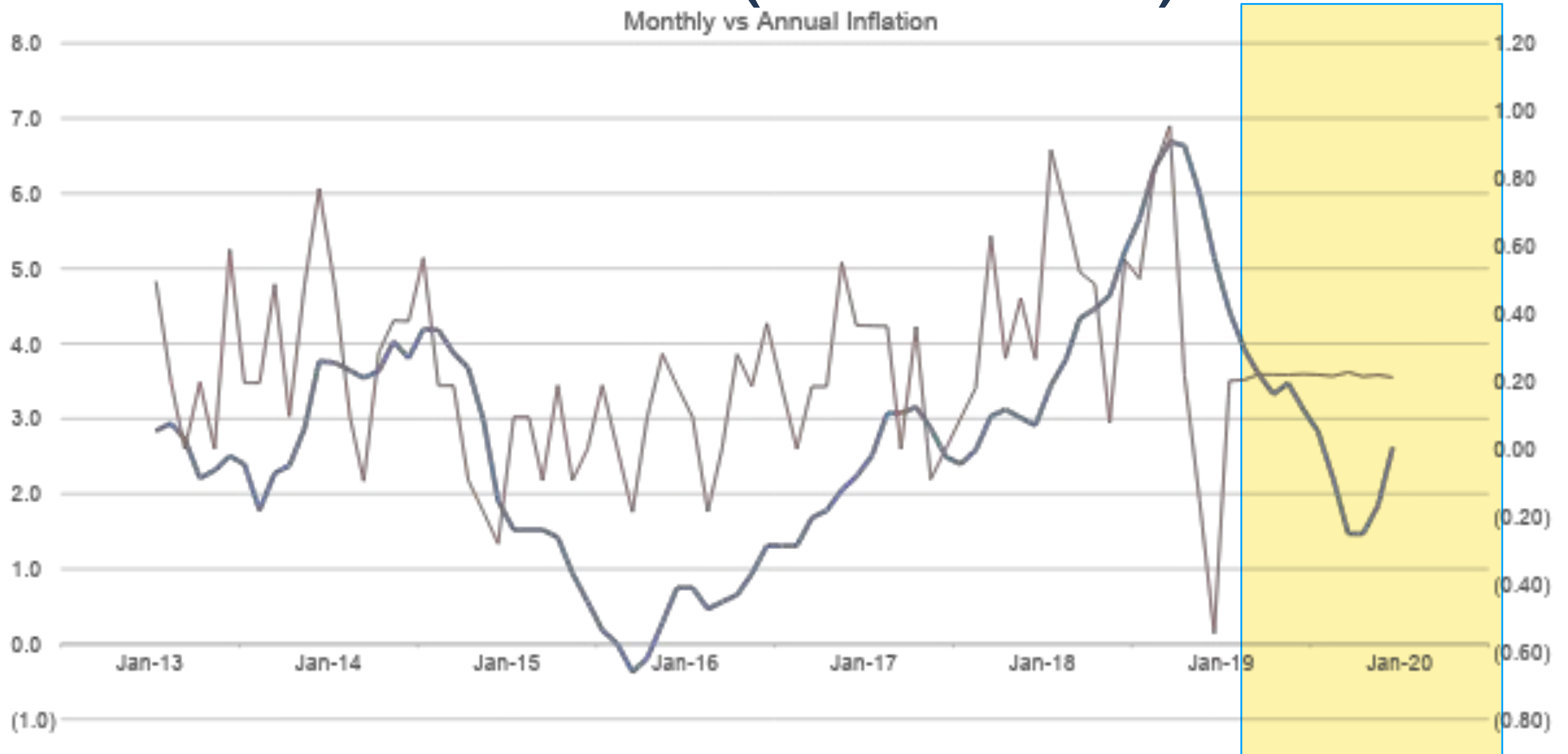


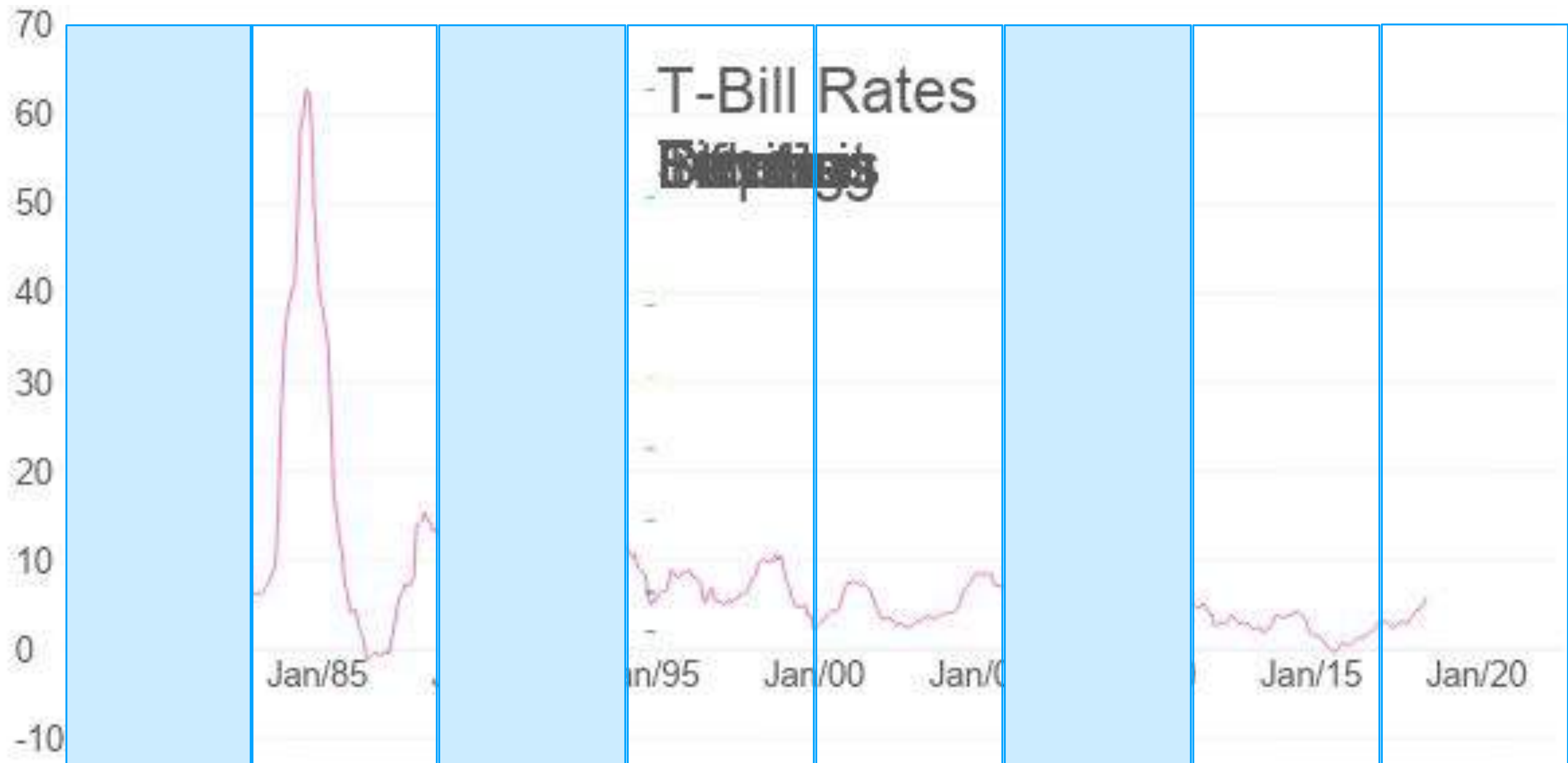
2018



2028

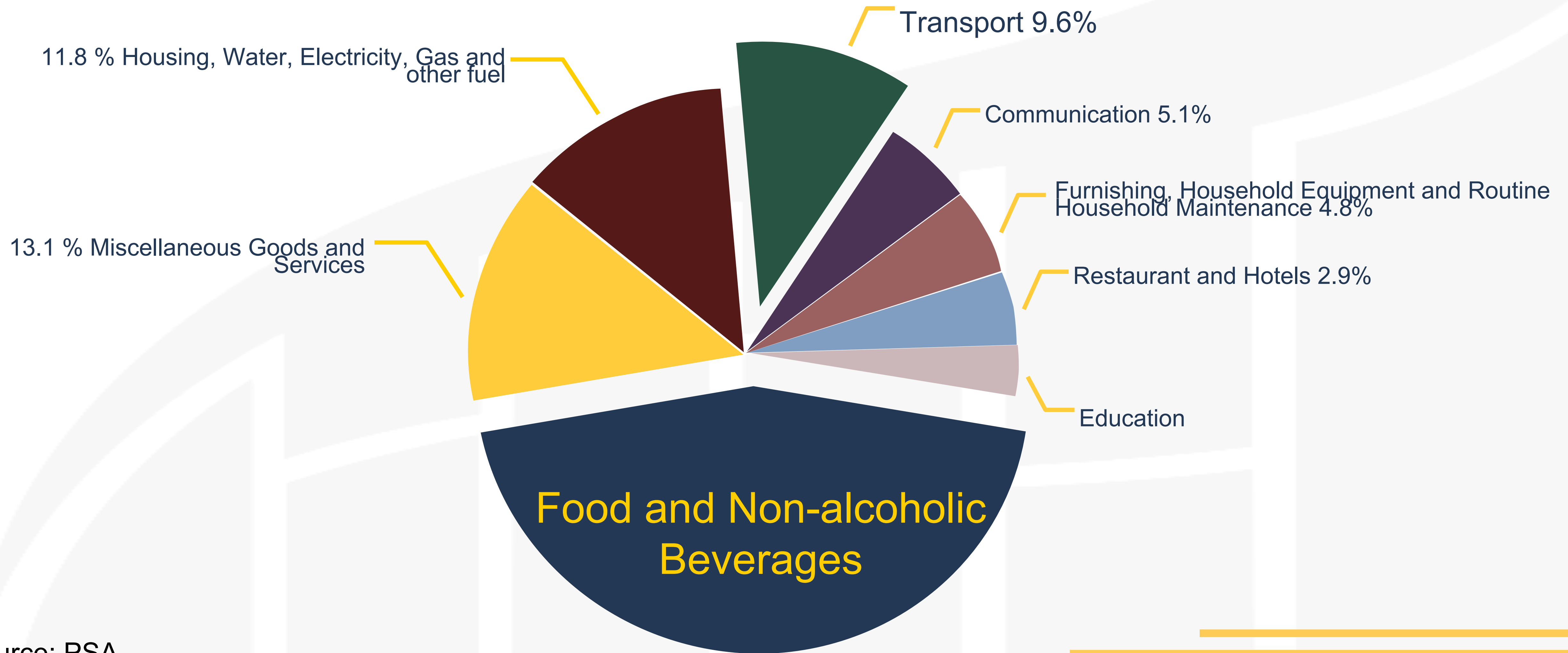
Inflation (Headline)





INFLATION WAS MUCH HIGHER A FEW YEARS AGO

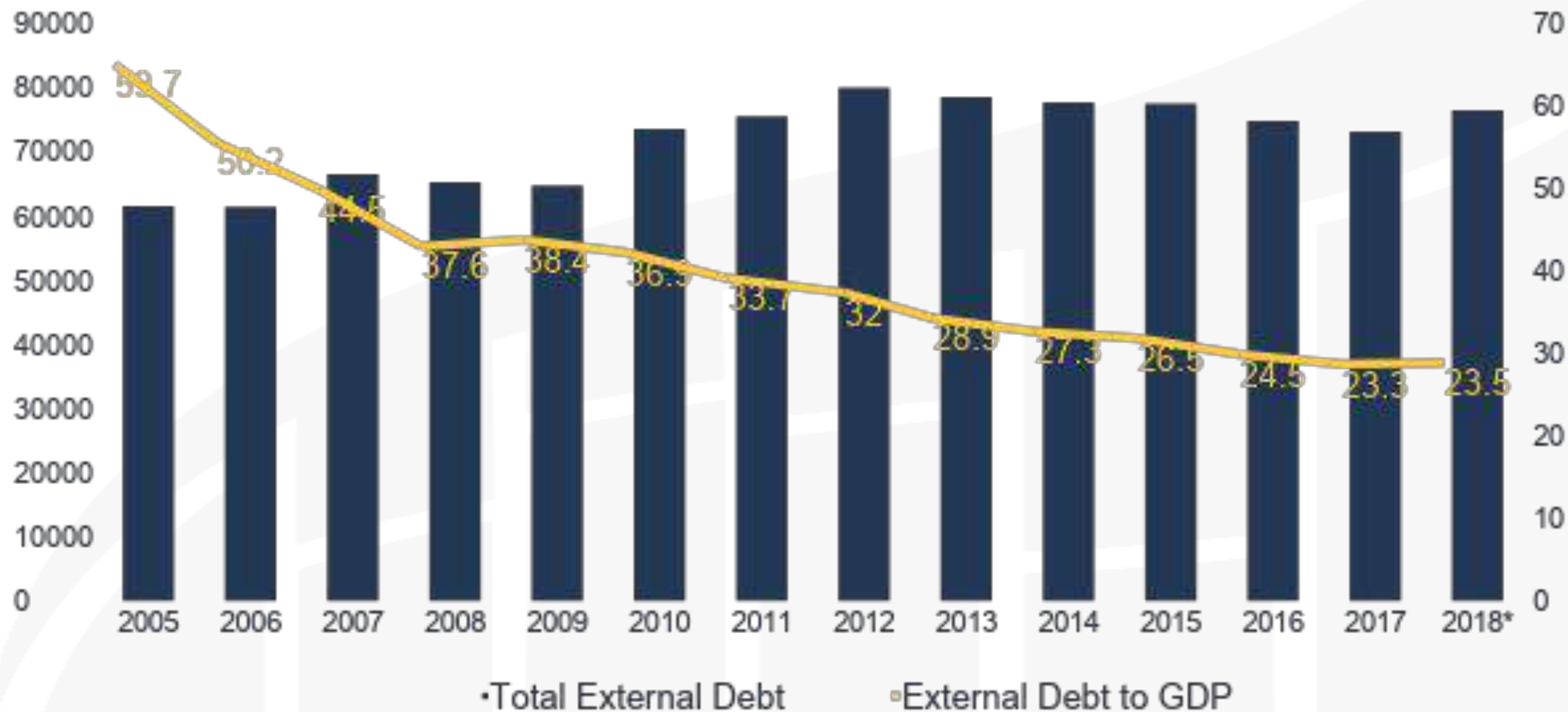
Food and non-alcoholic beverages remain to have the biggest share to consumption



The BACKGROUND OF PACKAGE 1

- **The tax reform package 1 is an important milestone in our history.**
 - First time a tax reform happened without a crisis and without an external force imposing.
 - First time the main purpose is poverty and inequality reduction, and not deficit and debt reduction.
-

Total External Debt



PERSONAL INCOME TAX

The first PHP 250,000 of annual taxable income will be exempt from income tax.

In addition, the first PHP 90,000 of the 13th month pay and other bonuses (combined) will be exempt from income tax.

Furthermore, the effective tax rates will be lowered for 99% taxpayers except the richest with taxable income above PHP 8 million, who will face a tax rate of 35%.

PIT SCHEDULE 1 (2018-2022)

Annual Taxable Income	Tax Rate	Percent of Taxpayers
0 - 250,000	0%	83%
Over 250,000 - 400,000	20% of the excess over 250,000	8%
Over 400,000 - 800,000	30,000 + 25% of the excess over 400,000	6%
Over 800,000 - 2,000,000	130,000 + 30% of the excess over 800,000	2%
Over 2,000,000 - 8,000,000	490,000 + 32% of the excess over 2,000,000	1%
Over 8,000,000	2,410,000 + 35% of the excess over 8,000,000	0.1%

PIT SCHEDULE 2 (2023 ONWARDS)

Annual Taxable Income	Tax Rate
0 - 250,000	0%
Over 250,000 - 400,000	15% of the excess over 250,000
Over 400,000 - 800,000	22,500 + 20% of the excess over 400,000
Over 800,000 - 2,000,000	102,500 + 25% of the excess over 800,000
Over 2,000,000 - 8,000,000	402,500 + 30% of the excess over 2,000,000
Over 8,000,000	2,202,500 + 35% of the excess over 8,000,000

Those with annual taxable income of PhP 500,000 are previously taxed at 32% will be reduced further to 20% by 2023



Value Added Tax

Products, service, or groups that will continue to be VAT-exempt

- Food and agricultural products
- Senior citizens
- Persons with Disability (PWD)
- Cooperatives
- Tourism
- Education
- Renewable energy
- Health
- Enterprises and BPOs located in Special Economic Zones
- Condominium association dues
- Rentals and leases below P15,000 per month
- International flights
- Books
- Banking
- Transfer of property
- Sale of Gold to BSP



Groups, products, or transactions that will be VAT-exempt

- Businesses with annual gross sales of P3 million and below
- Government owned and controlled corporations (GOCCs), state universities and colleges (SUC), and government agencies
- Medicines for diabetes, cholesterol, and hypertension (VAT exemption beginning 2019)
- Socialized housing, or houses priced at P450,000 and below, and low-cost housing, or those priced at P3 million and below (VAT exemption retained from 2018 to 2020 only)



Oil Excise Rates

One of the major provisions of the tax reform is the staggered increase in oil excise. The current rates have been unadjusted since 1997, draining some P145 billion of government revenues annually.

Under TRAIN, rates will be adjusted gradually between 2018 and 2020.

Excise tax on oil products

Pesos per liter	1997 - 2017	2018	2019	2020	2021 onwards
Diesel	Php 0.00	Php 2.50	Php 4.50	Php 6.00	Php 6.00
Gas	Php 4.35	Php 7.00	Php 9.00	Php 10.00	Php 10.00

* The scheduled increase in the the Excise Tax on fuel as impose in this section shall be suspended when the average Dubai crude oil price based on Mean of Platts Singapore (MOPS) for three (3) months prior to the scheduled increase of the month reaches or exceeds eighty dollars (USD 80) per barrel.



Sweetened beverages

Excise Tax on Sugar-Sweetened Beverages (SSB)

The tax on SSBs is a health measure meant to discourage the consumption of sugar-sweetened beverages due to their high-sugar content, while encouraging industry players to develop healthier product alternatives.

SSB EXCISE TAX



P6 per liter of volume capacity for SSBs using purely caloric, and purely non-caloric, or a mix of both

P12 per liter of volume capacity for others using purely HFCS or in combination w/ any caloric or non-caloric sweeteners

Products covered by SSB excise tax under TRAIN:



Sweetened juice drinks



Sweetened tea

Other beverages:

All carbonated beverages with added sugar, including those with caloric and non-caloric sweeteners



Flavored water



Energy drinks



Sports drinks

Other powdered drinks not classified as milk.

Cereal and other grain beverages

Other non-alcoholic beverages that contain added sugar

KEY EXEMPTIONS: 3-in-1 coffee, milk, 100% natural juice

the price of a 1-liter bottle of regular soft drink will increase from 30 pesos to 42 pesos, while 1-liter of diet soft drink will increase from 30 pesos to 36 pesos

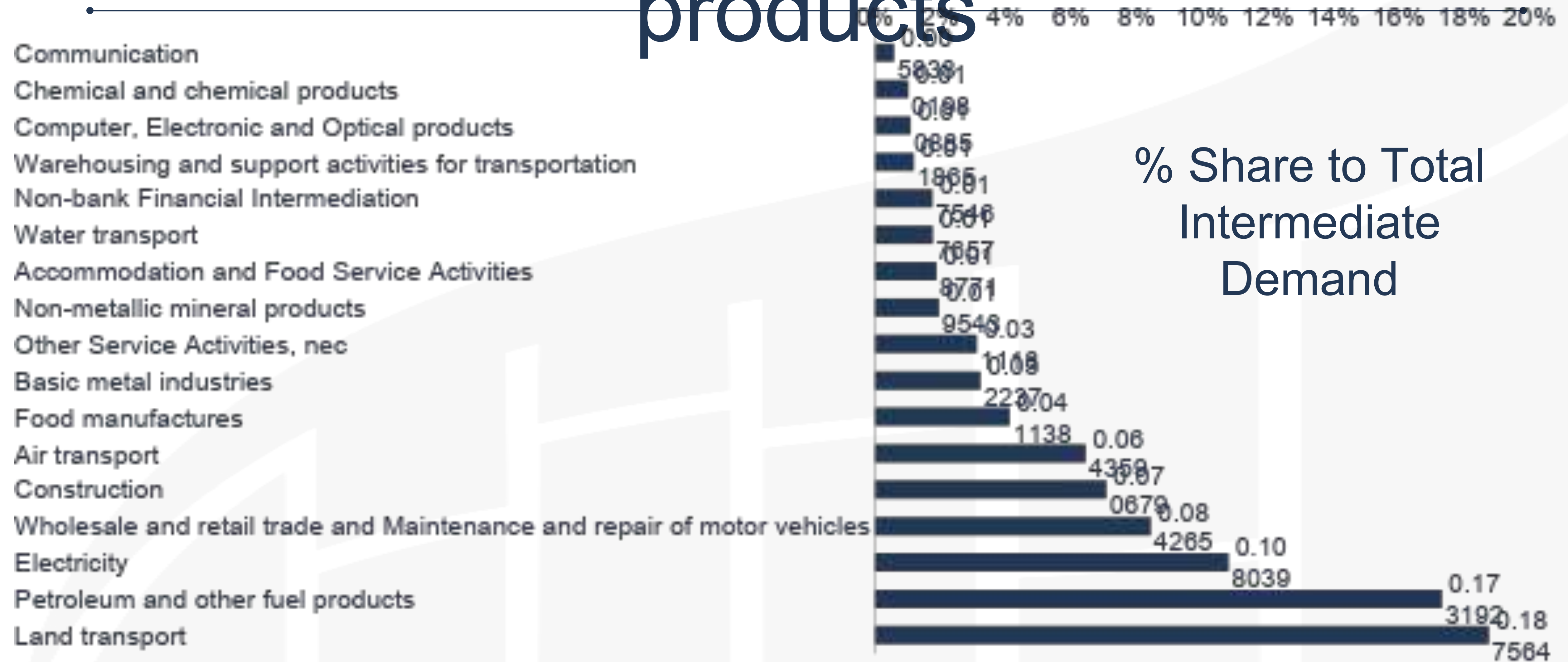
WEIGHTS OF SPECIFIC ITEMS

	TOTAL: Food And Non-Alch olic Beverage s	Rice	Corn	Other Cereals, Flour, Cereal Preparatio n, Bread, Pasta and Other Bakery Products	Meat	Fish	Milk, Cheese, and Eggs	Oils and Fats	Fruits	Vegetables	Sugar, Jam, and Honey	Foods N.E.C.	Non-Alcoholic Beverages
WEIGHTS (from Total Contributio n)	38.34	9.59	0.57	3.29	6.25	5.74	3.08	0.78	1.40	2.60	1.03	1.12	2.88

TOTAL: HOUSING, WATER, ELECTRICIT Y, GAS AND OTHER FUELS	Rentals for Housing	Maintenance & Repair Dwelling	Water Supply and Miscellaneous Services Relating to the Dweling	Electricity, Gas and Other Fuels
22.035	12.884	0.548	1.17	7.44

**COMBINED IMPACT TO ABOUT
10% OF
THE INFLATION BASKET**

Top sectors using petroleum and fuel products



DOF ASSUMPTION

Indicative pump price				
Pesos per liter	Dec 2017	Jan 2018	Jan 2019	Jan 2020
Diesel	32.77	35.57	37.81	39.49
Gasoline	46.85	49.82	52.06	53.18
Actual pump price				
Pesos per liter	Dec 2017	Jan 2018	Jan 2019	Jan 2020
Diesel	35.43	38.76	32.50	?
difference	-2.66	-3.19	5.31	

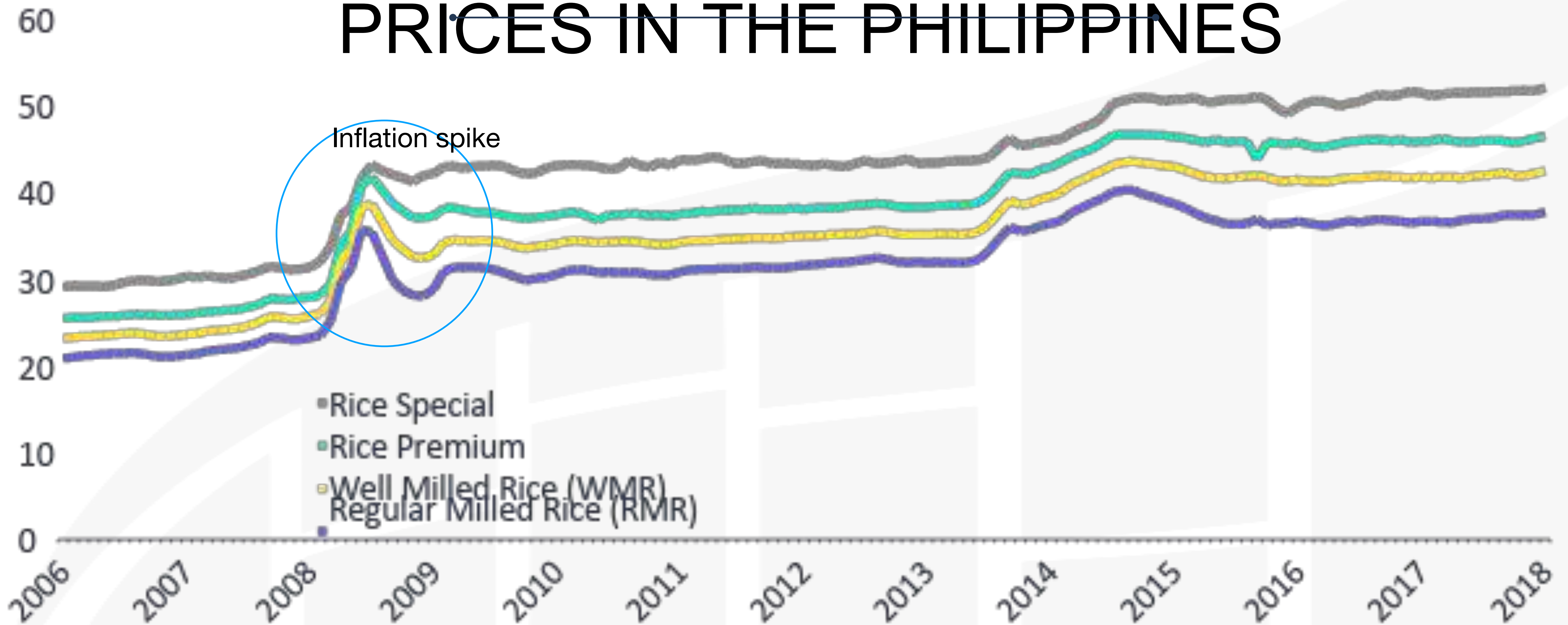
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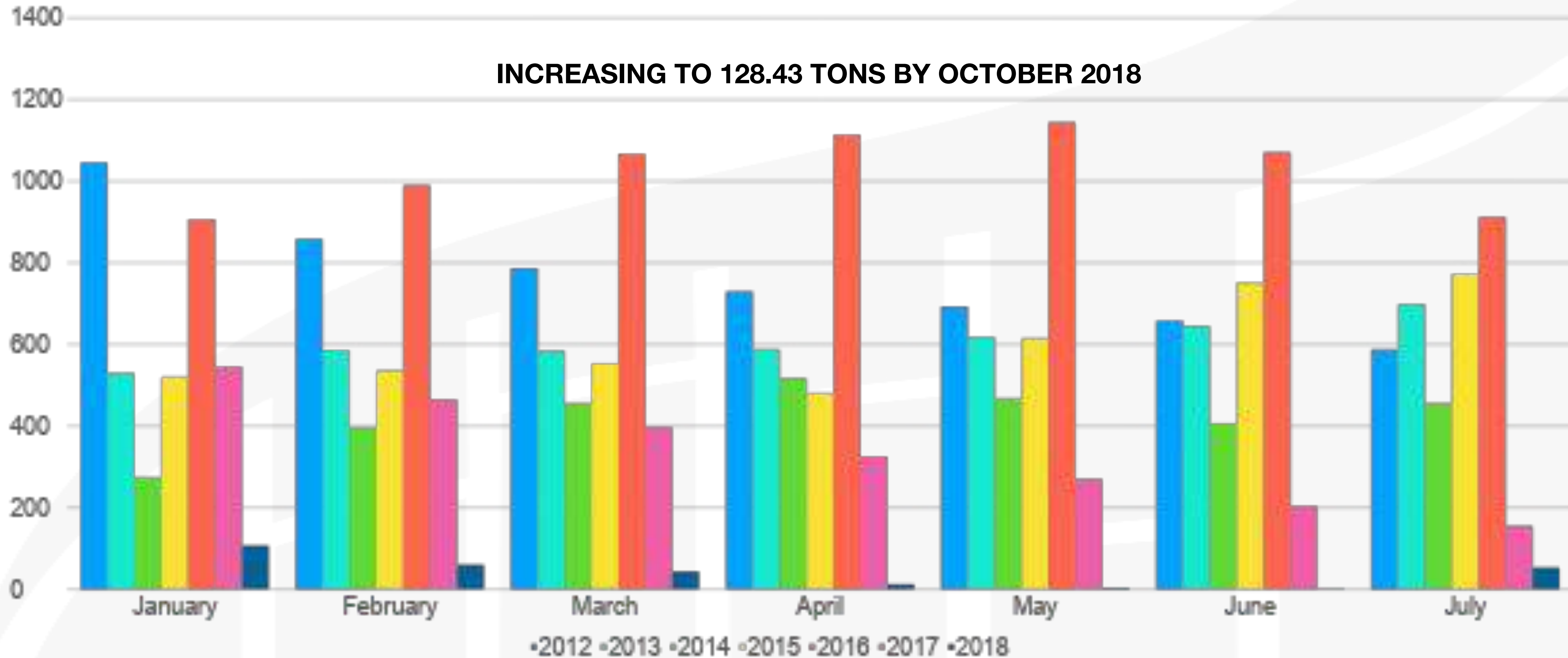
**RICE ALONE IS ABOUT 10% OF
THE INFLATION BASKET**

SHORTAGE OF RICE IMPORTS, CALAMITIES RESULT TO HIGHER RICE PRICES IN THE PHILIPPINES



NFA STOCK INVENTORY

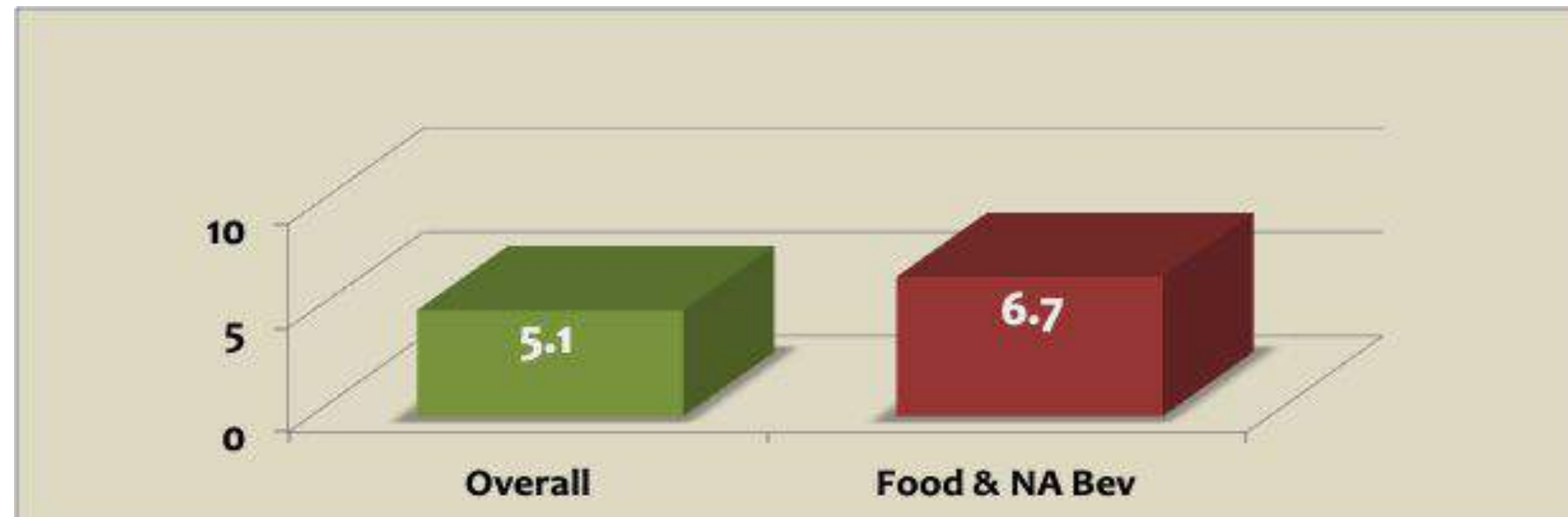
INCREASING TO 128.43 TONS BY OCTOBER 2018





Inflation is hurting the poor more...

- While overall inflation rate is 5.1%,
Food & Non-alcoholic Beverages – 6.7%
(Alcoholic Beverages & Tobacco – 21.7%)

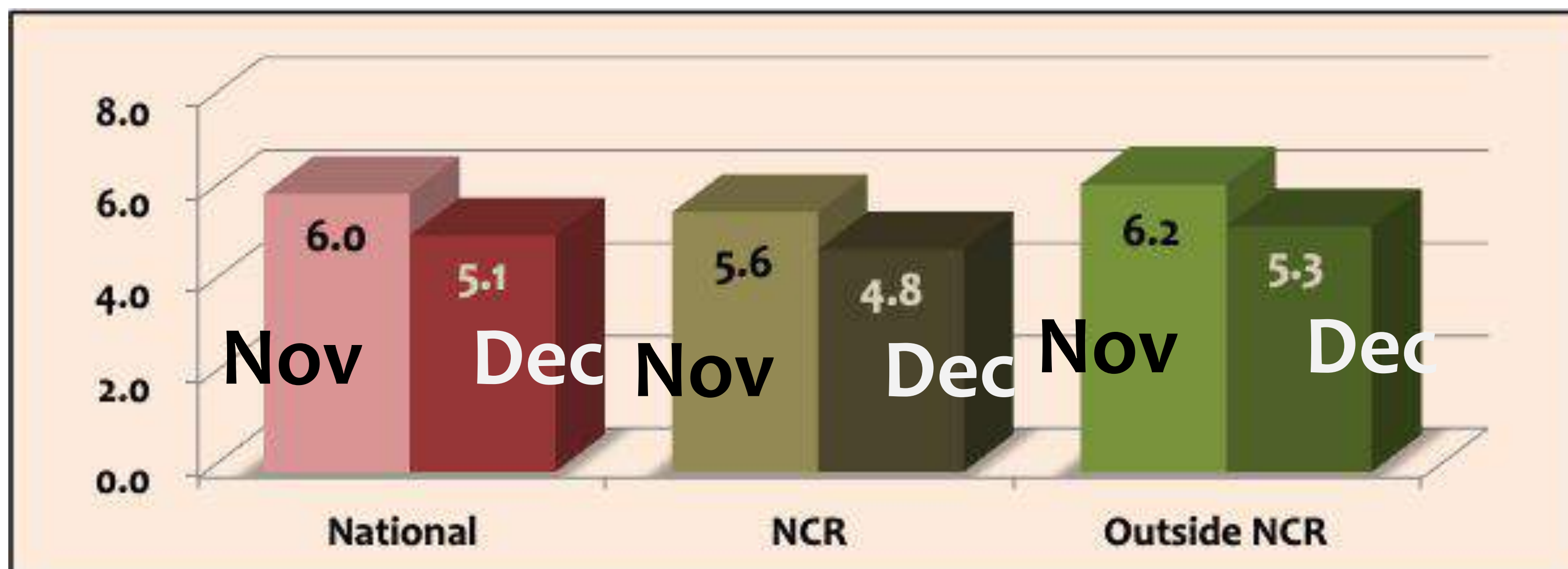


- Food takes a much higher share of poor families' budgets



... and the countryside more.

- Inflation rate in Metro Manila (NCR) – 4.8%
- Inflation rate outside NCR – 5.3%



- 70% of Filipino poor reside in the rural areas

Income tax cuts negated by inflation?

The average inflation for 2018 is 5.2%

This is higher than the 3.2% increase to workers earning a little above minimum, but is lower to those earning about 25,000 a month and is just about right to those earning about 50,000



Jobs Creation: 2017 Decline Reverses

But slowed down thru 2018

Employment Data	Jan 2018	Apr 2018	July 2018	Oct 2018	Oct 2017	2018	2017
Unemployment (%)	5.3	5.5	5.4	5.1	5.0	5.3	5.7
Net New Jobs ('000)	2,408	625	488	-218	-134	826	-663
Agriculture	841	-723	-737	-419	-1,428	-260	-803
Industry	719	605	172	405	374	475	212
Services	847	742	1,053	-204	920	610	-72
Underemployment (%)	18.0	17.0	17.2	13	15.9	16.4	16.1



Better Quality Jobs

Wage employment is expanding

Category of Worker	2018 Average		2017 Average		Change ('000)
	('000)	%	('000)	%	
Wage & Salary Workers	26,261	63.8	25,203	62.5	1,057
Private Household	1,950	4.7	1,922	4.8	28
Private Establishment	20,620	50.1	19,779	49.0	841
Government	3,571	8.7	3,387	8.4	184
Family Owned Business	130	0.3	116	0.3	14
Own Account	12,574	30.6	12,682	31.5	-108
Self Employed	11,086	26.9	11,193	27.8	-107
Employer	1,488	3.6	1,489	3.7	-1
Unpaid Family Workers	2,315	5.6	2,439	6.0	-123

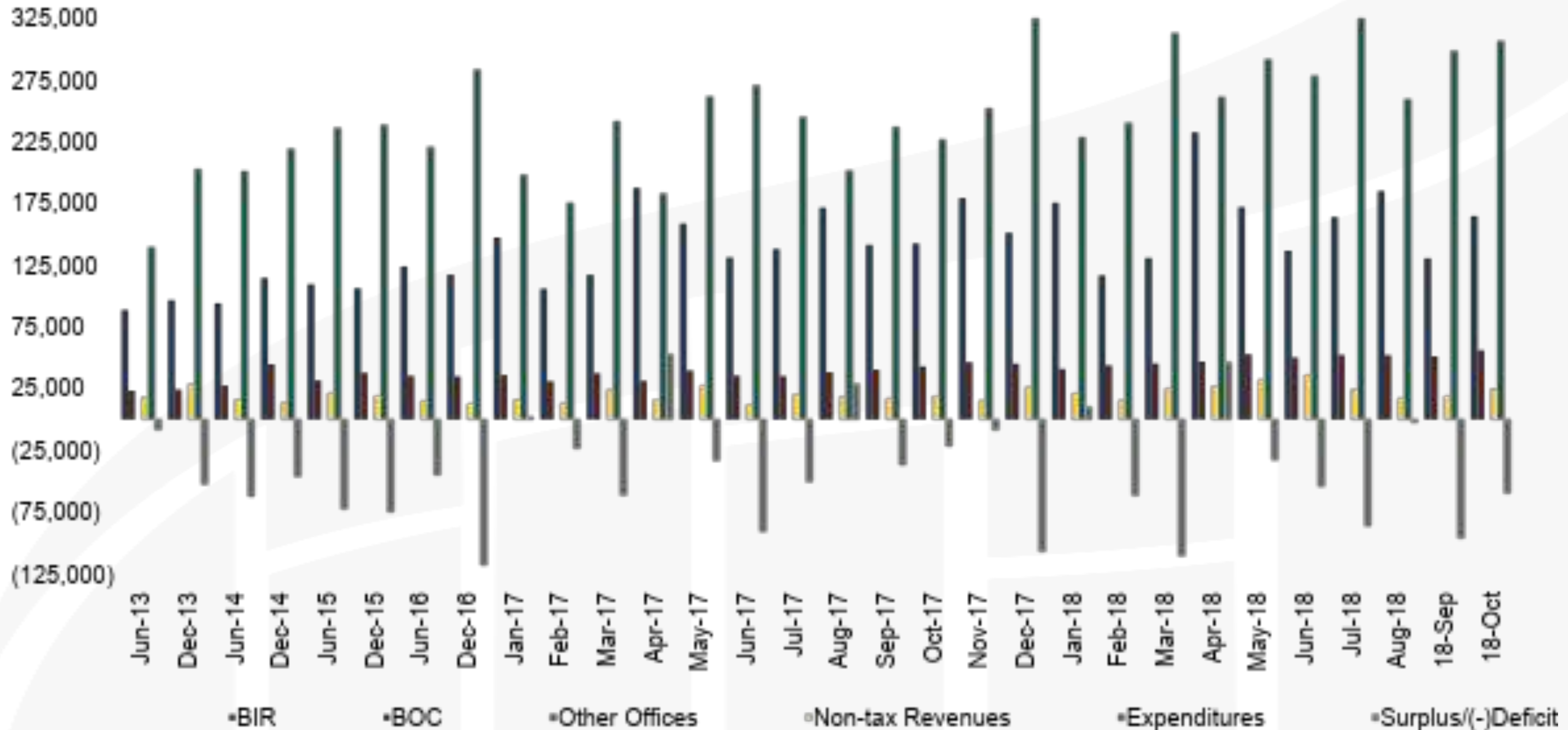


Trabaho (Official Statistics)

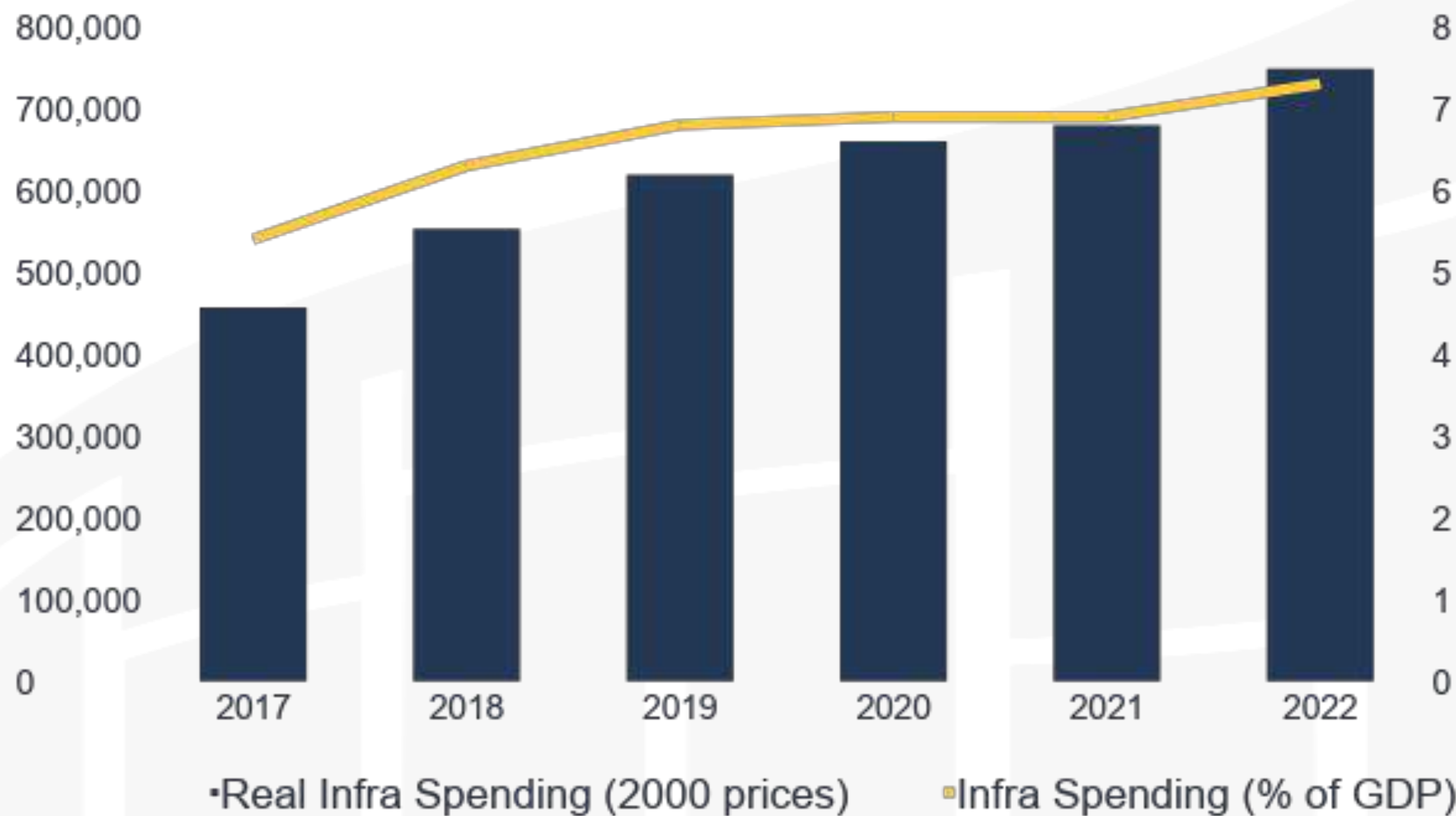
	2014	2016	2018
Population 15 y.o. and over	62,189	68,125	71,339
Labor Force Participation Rate	64.4	63.4	60.9
Employment Rate	93.2	94.5	94.7
Unemployment Rate	6.8	5.5	5.3
Underemployment Rate	18.4	18.3	16.4

- Decrease of LFPR despite increase in population 15 y.o. and over. Pessimism in labor market?
 - Decreasing yet slowing decrease in unemployment.
- Decreasing yet speeding decrease in underemployment.
Improvement of jobs.

TRAIN revenues



PROPOSED INFRASTRUCTURE SPENDING by NEDA



BBB Program

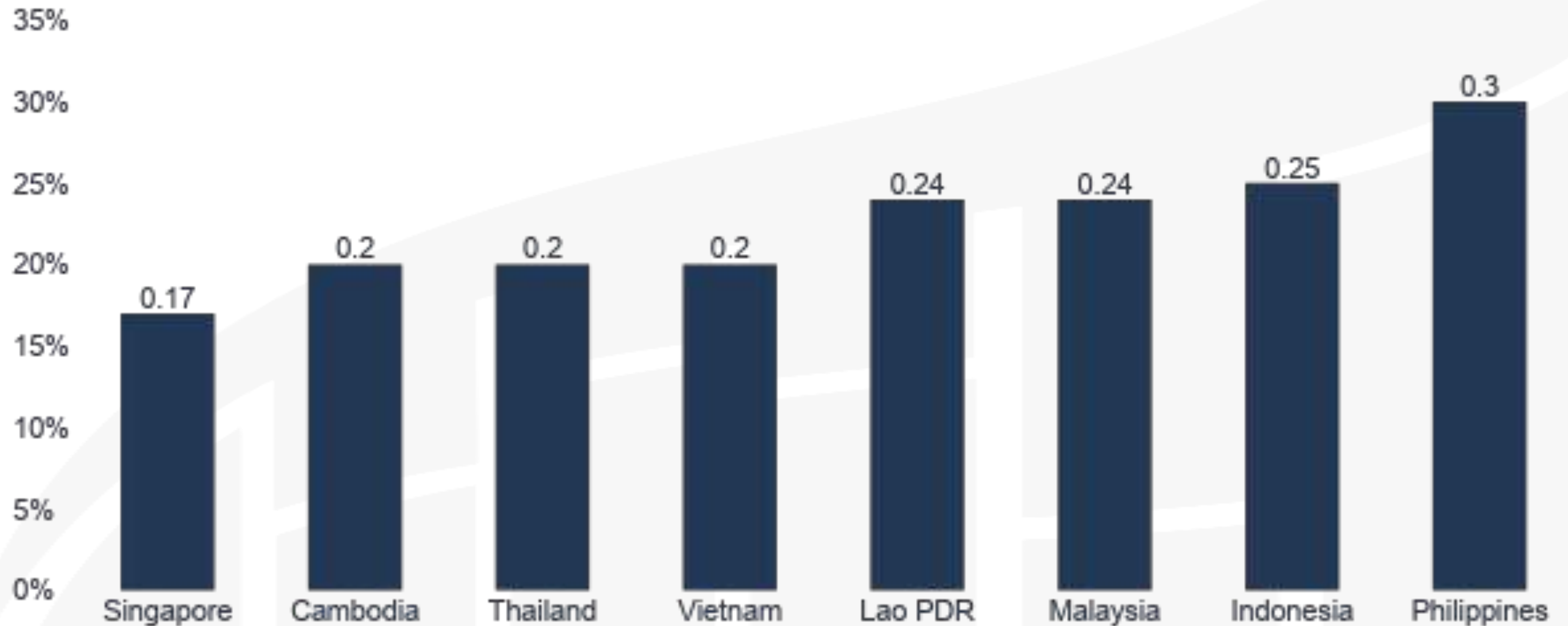
	Count	2017	2018	2019	2020	2021	2022	Total	Share (%)
Ongoing	573	404,703	501,579	523,515	534,310	493,541	513,087	2,970,735	38.39
Approved	230	2,910	56,209	117,478	187,312	163,548	97,544	625,001	8.08
Undergoing approval	893	8,768	181,514	211,332	229,993	208,243	167,292	1,007,142	13.02
To be submitted	2,574	91,859	338,434	377,317	439,161	358,783	357,296	1,962,849	25.37
Deferred	59	233	1,752	1,072	1,670	33,483	45,608	83,818	1.08
TBD	161	188,576	263,384	192,182	173,630	143,584	127,378	1,088,734	14.07
Total	4,490	697,048	1,342,871	1,422,897	1,566,075	1,401,183	1,308,205	7,738,280	100

Almost 40% of the budget has been approved in be rolled out in the next few years.

BBB CHALLENGES

Tarlac-Pangasinan-La Union Expressway				Ongoing						
NAIA Expressway					Completed					
Metro Manila Skyway Stage 3						Ongoing				
MRT Line 7							Ongoing			
Cavite-Laguna Expressway								Ongoing		
LRT Line 1 Cavite Extension								Ongoing		
NLEX-SLEX Connector Road										Target start
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Aquino						Duterte			

Corporate income tax (CIT) ASEAN



TAX INCENTIVES SYSTEM

Country	Maximum years of incentives
Philippines	4 + 8 extension + GIE forever
Brunei Darussalam	20
Cambodia	9
Indonesia	20
Lao PDR	20
Malaysia	5 + 5 extension
Myanmar	5 to 7
Singapore	3
Thailand	8
Vietnam	2 to 4

Due to tax incentives, tax rates are very unequal

	Special Regime (Special Income Tax Rate)	Regular Regime
Major Sector	ETR of tax incentive recipients (%)	ETR of regular firms (%)
Agriculture and Fishery	6.3	30
Economic and Low-cost Housing	9.1	30
Energy	10.0	30
Manufacturing	10.2	30
Mining and Quarrying	-	30
PPP Projects	-	30
Services	12.0	30
Tourism	9.6	30
Unfilled/ Unspecified Registered Activity	13.5	30

Interest Rates on the Rise

Policy interest rates in the United States and Euro Area



Source: Haver Analytics.

Note: Figure shows the mid-range of the main ECB refinancing and the U.S. federal funds rates. Last observation is June 2018.

US-CHINA TRADE WAR



LIST
#1

34B

818
products

LIST
#2

14B

279
products

LIST
#3

199B

5745
products

246B

TOTAL

How it will impact PH?

Export Partner	Share to total exports	Share to 2017 GDP (Exports/GDP)
Japan	20.33%	11.57%
United States	15.42%	8.77%
Hong Kong	11.53%	6.56%
China	11.10%	6.32%
Singapore	6.66%	3.79%



China's New Directions



- Growth has tempered at 6-7% range
- Saddled with overcapacity (steel, cement, solar panels, etc.)
- China's Strategy:
 - Redirect capital abroad
 - Diffuse excess domestic industrial capacity
 - Reap improved financial returns
 - Build goodwill with neighbors, Europe, Africa
 - Take the lead in higher level knowledge-based industries and renewable energy



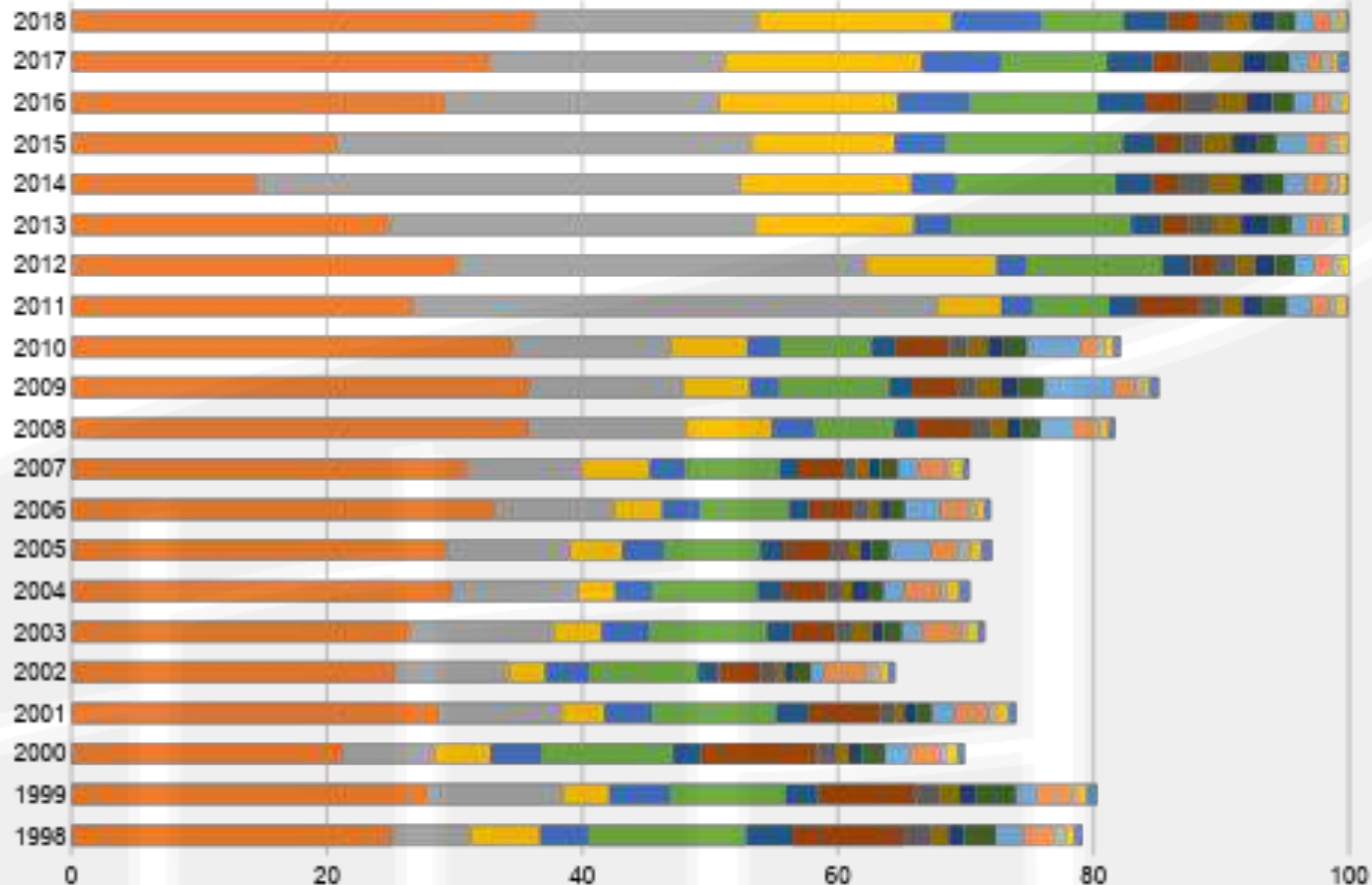
China's Economic Trends Are Widely Felt



- IMF: World economic growth to lose 1.5 percentage points if China stops growing
- China economy slowdown is 'exported' to "resource economies" (Australia, Canada, Brazil, PH, Indonesia)
- China needs to do something different, and do something fast...

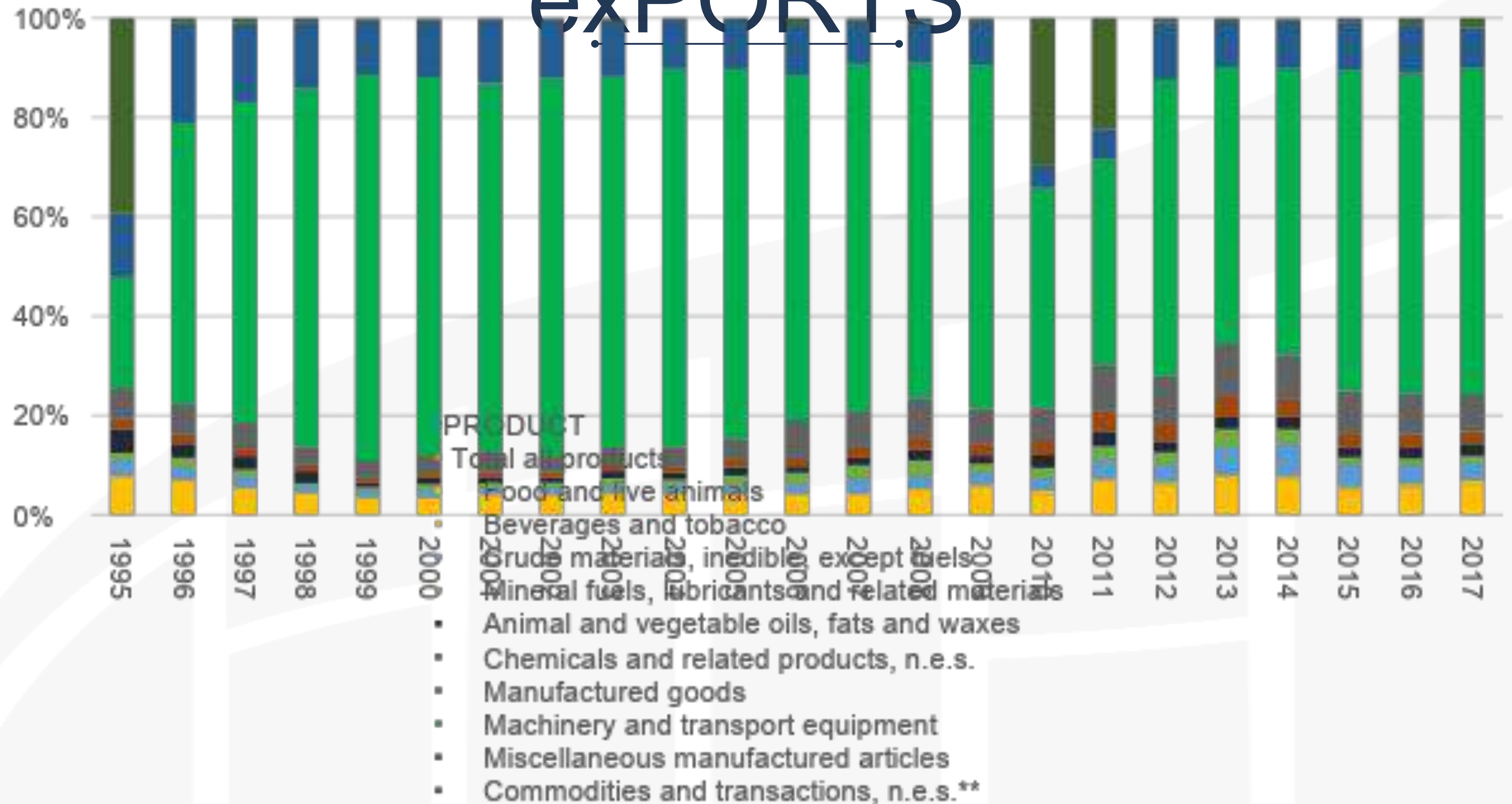
PRINCIPAL IMPORT GOODS, Percent (%) Share to Total Imports

- Electronics
- Others
- Transport equipment
- Base metals
- Mineral fuels
- Electrical machinery
- Machinery and mechanical appliances
- Artificial resins
- Medical and Pharmaceutical products
- Paper products
- Chemical products
- Cereals
- Textile yarns
- Feedstuff
- Dairy Products
- Metalliferous ores and metal scrap



Source: Philippine Statistics Authority

exPОРTS

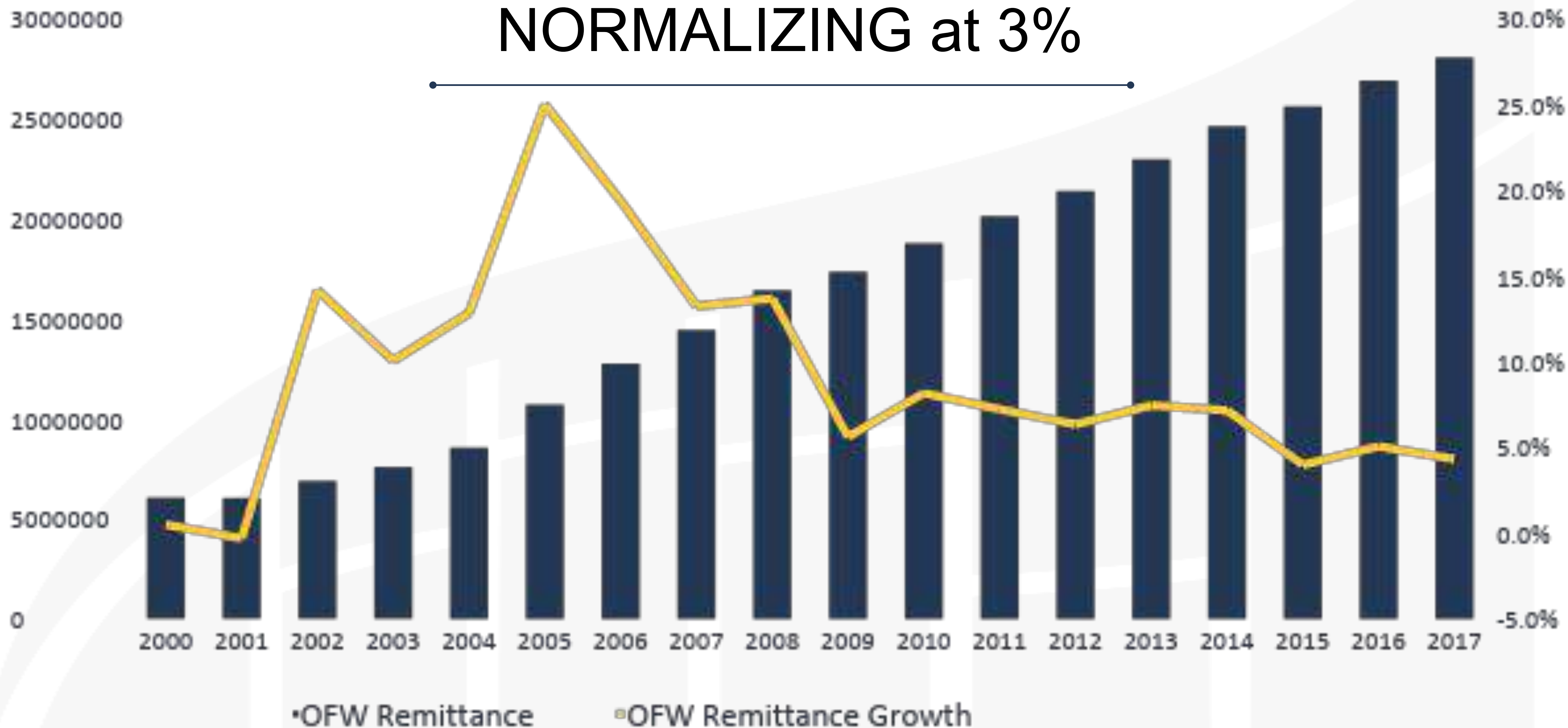


Trade Balance as % of GDP

		Philippines	Malaysia	Indonesia	Thailand	Singapore	India	Korea	Taiwan	China	Vietnam
2013		-2.1	6.9	-0.4	-5.2	10.5	-8.2	3.4	6.5	2.7	0.0
2014		-1.2	7.5	-0.2	-0.1	12.0	-7.0	3.3	7.2	0.9	1.3
2015		-4.2	2.1	0.9	2.9	16.4	-6.0	6.5	9.2	5.5	-1.8
2016		-8.8	7.1	0.9	5.1	14.9	-4.4	6.3	9.4	4.9	-0.1
2017		-8.7	7.2	1.2	3.3	14.1	-5.8	6.2	10.1	3.6	-0.7
	Q1	-8.5	5.8	1.7	4.0	14.7	-4.6	4.4	7.8	2.5	-5.1
	Q2	-7.1	7.3	1.4	2.9	15.3	-6.8	7.7	8.8	4.2	-1.1
	Q3	-7.7	7.8	1.2	4.9	15.3	-5.4	7.7	12.2	3.7	5.2
	Q4	-11.2	7.8	0.4	1.5	11.3	-6.5	5.0	11.4	3.8	3.4
2018	Q1	-11.3	9.7	0.1	1.5	13.8	-5.9	3.3	7.9	1.6	6.0
2018	Q2	-11.9	7.8	-0.5	1.2	14.2	-7.0	4.5	9.5	2.7	2.1
2018	Q3	-13.6	6.9	-1.0	-0.5	12.4	-7.6	5.7	7.7	2.6	5.1

Source: PSA

OFW REMITTANCE GROWTH NORMALIZING at 3%

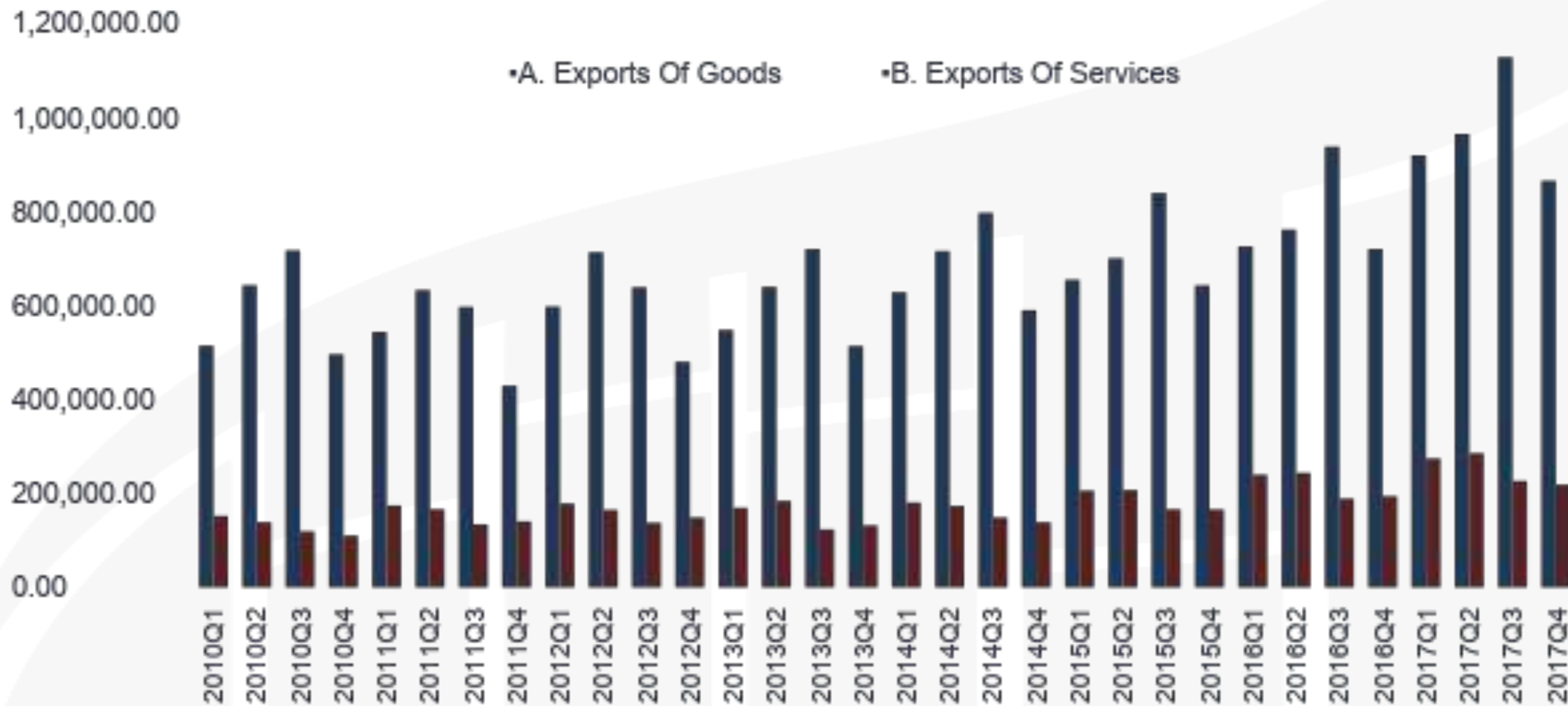


Tourism arrivals

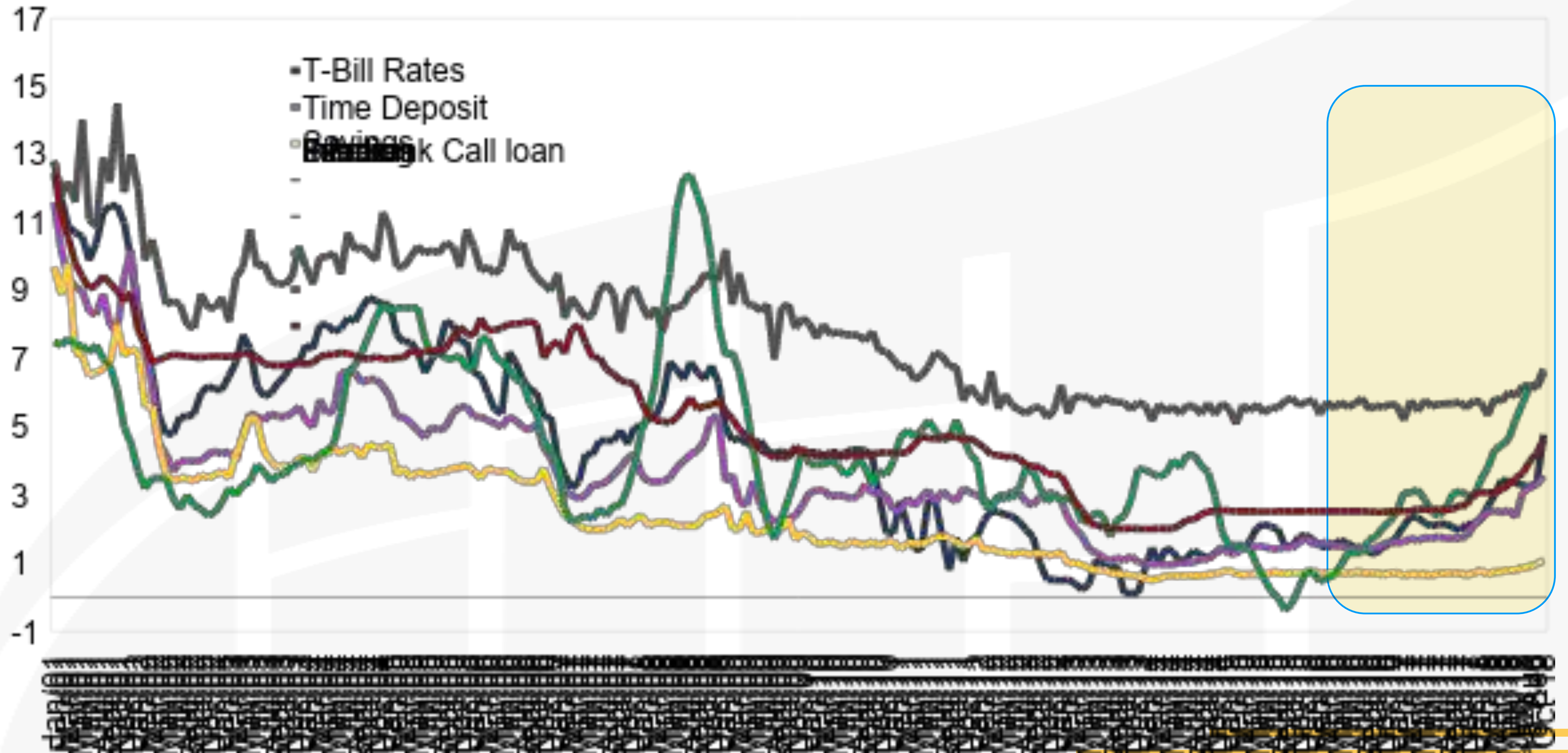
ADB Regional Member	2000	2005	2010	2015	2016	2017
Southeast Asia^b	35,458	48,971	70,431	104,181	110,764	100,639
Brunei Darussalam	...	126	214	218	219	259
Cambodia	...	1,333	2,508	4,775	5,012	5,602
Indonesia	5,064	5,002	7,003	9,963	11,072	...
Lao People's Democratic Republic	191	672	1,670	3,543	3,315	...
Malaysia	10,222	16,431	24,577	25,721	26,757	25,948
Myanmar	208	660	792	4,681	2,907	...
Philippines	1,992	2,623	3,520	5,361	5,967	6,621
Singapore	6,062	7,079	9,161	12,052	12,914	13,906
Thailand	9,579	11,567	15,936	29,923	32,588	35,381
Viet Nam	2,140	3,478	5,050	7,944	10,013	12,922

Tourist arrivals remain disappointingly low annualized figures as of Sept 2018 will lead only 7 million – far from the expected 10 million

Export of Services



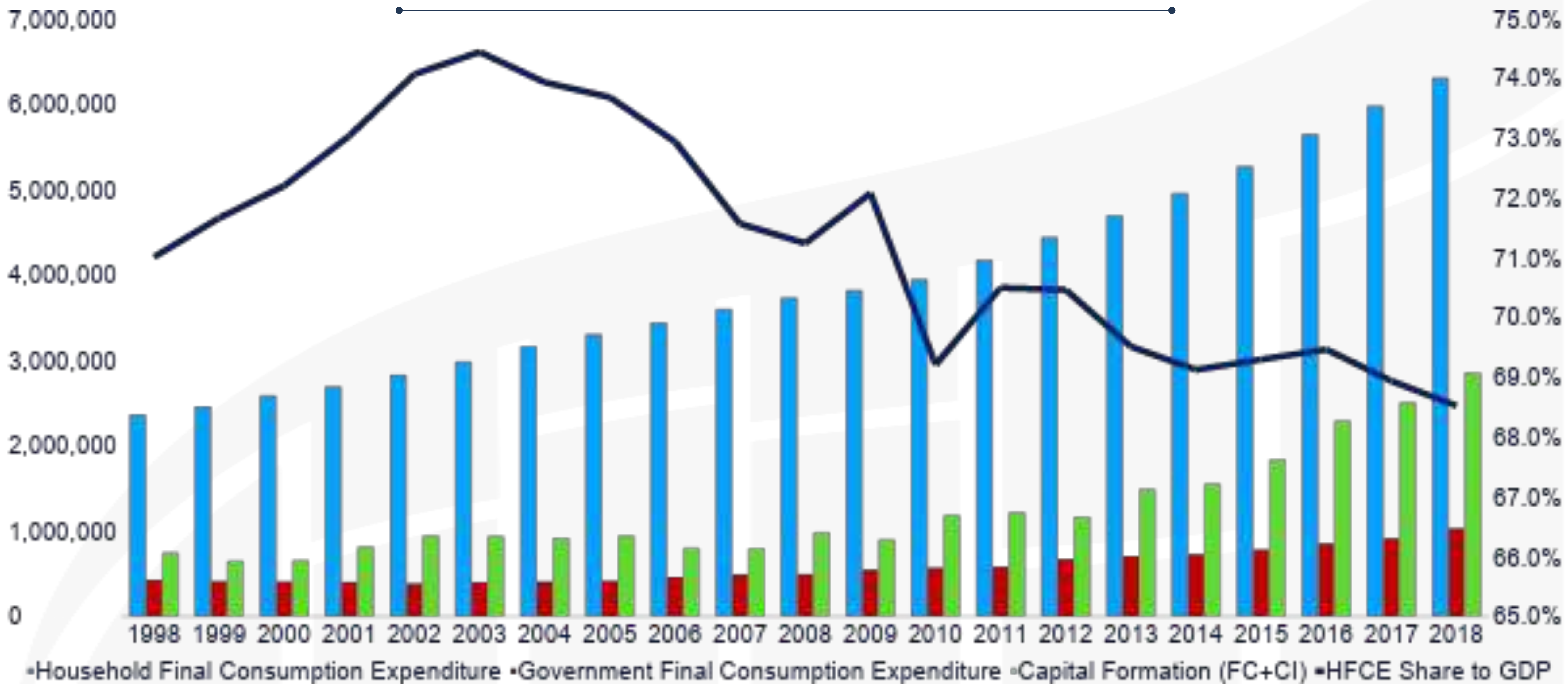
Interest Rates



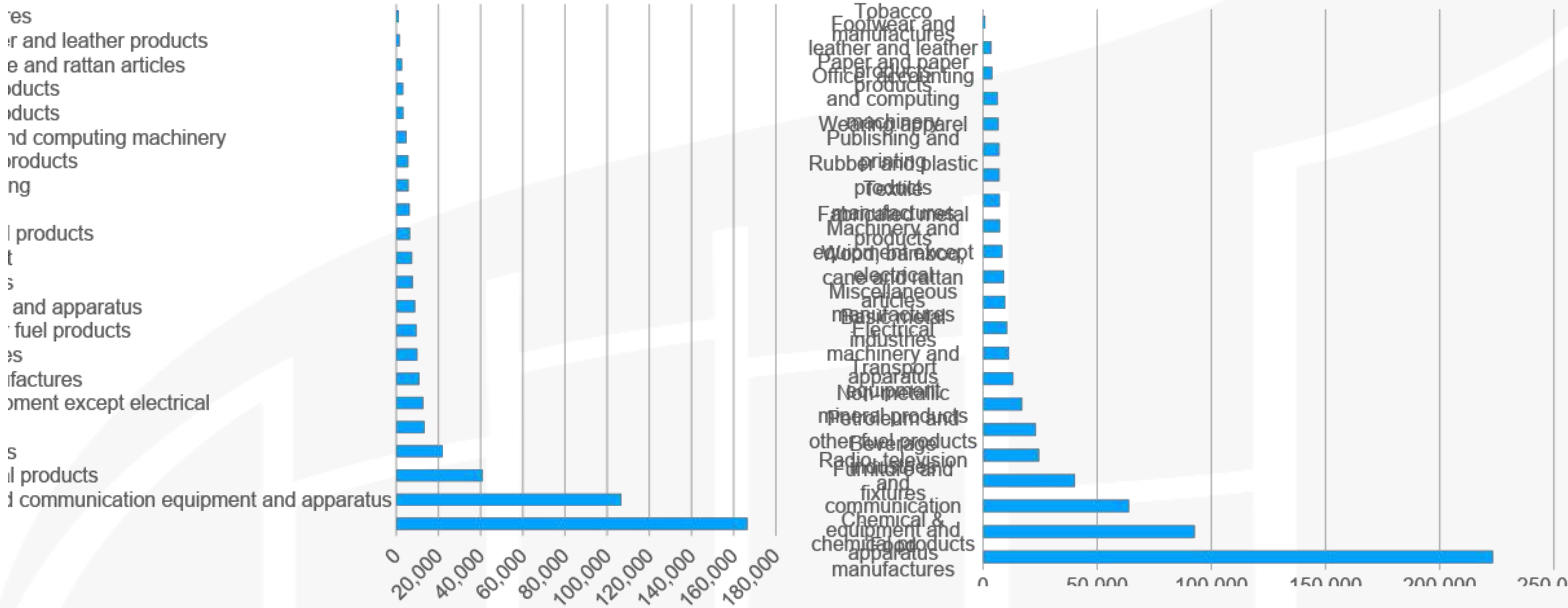
Fiscal Balance as share of GDP

		Philippines	Malaysia	Indonesia	Thailand	Singapore	India	Korea	China	Vietnam
2013		-1.4	-5.0	-2.5	0.9	4.4	-5.5	1.0	-1.8	-3.9
2014		-0.6	-3.5	-2.2	0.3	4.6	-4.3	0.6	-1.8	1.6
2015		-0.9	-3.2	-2.6	0.3	4.4	-3.4	0.0	-3.4	2.9
2016		-2.4	-3.1	-2.5	-0.7	3.9	-3.7	1.0	-3.8	3.6
2017		-2.2	-3.0	-2.6	-0.6	3.4	-4.0	1.0	-3.7	5.4
	Q1	-2.3	-6.2	-3.3	-0.6	-1.0	-0.9	-0.2	-0.9	4.3
	Q2	-1.8	-4.2	-2.1	4.2	7.4	-11.3	-3.1	-3.8	2.8
	Q3	-1.5	0.2	-2.9	3.0	6.5	-1.4	2.8	-4.0	2.6
	Q4	-3.1	-2.0	-2.1	-8.5	1.0	-2.9	-1.2	-5.6	10.0
2018	Q1	-3.9	-3.3	-2.4	0.3	3.2	0.6	-0.1	-0.2	5.2
	2018Q2	-0.9	-5.6	-0.7	3.2	8.6	-9.7	-2.7	-3.1	6.3
	2018Q3	-4.4	-0.9	-2.3	4.0	5.7	-3.6	4.3	-4.4	3.1

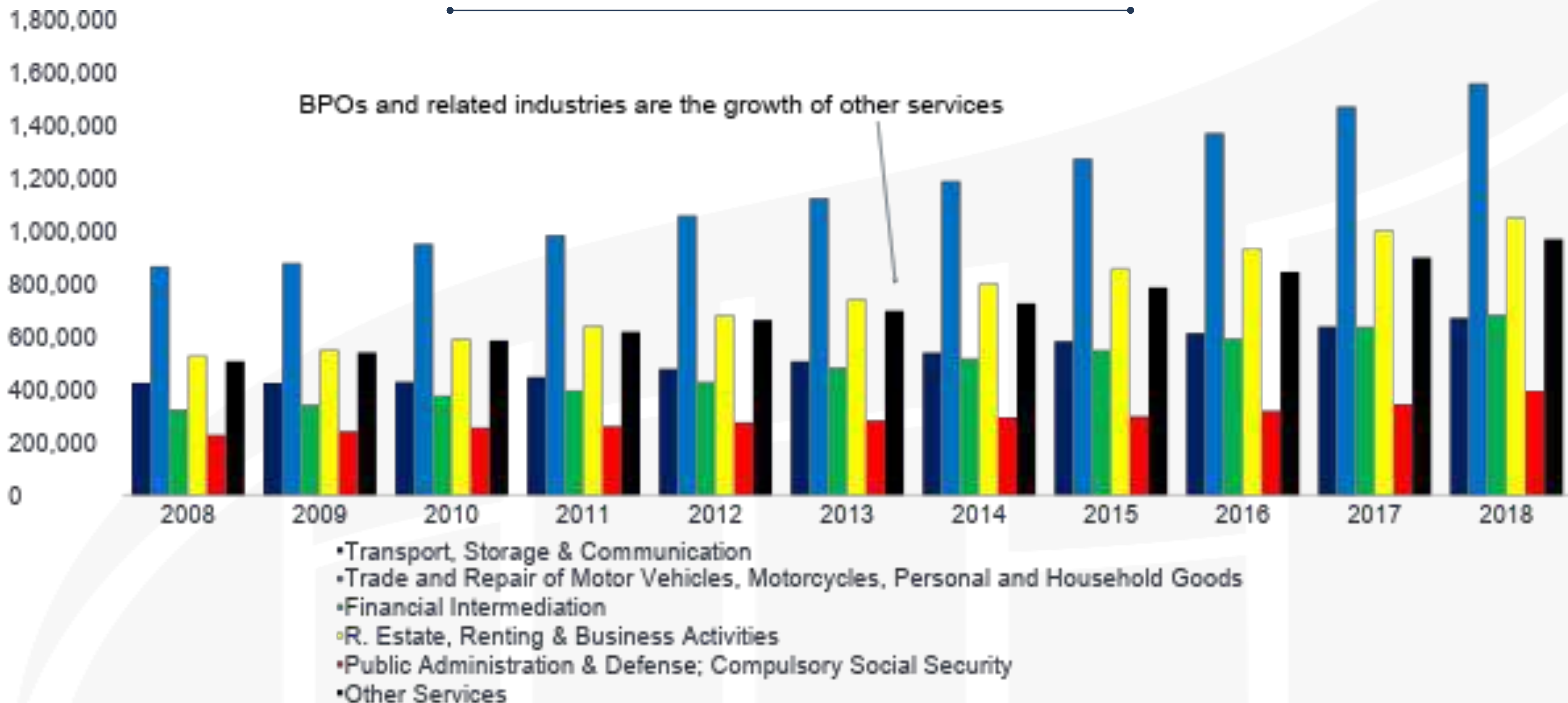
Household consumption still remain as growth driver affected by inflation in 2018



Top 10 manufacturing industries account for 85% of the total manufacturing sector

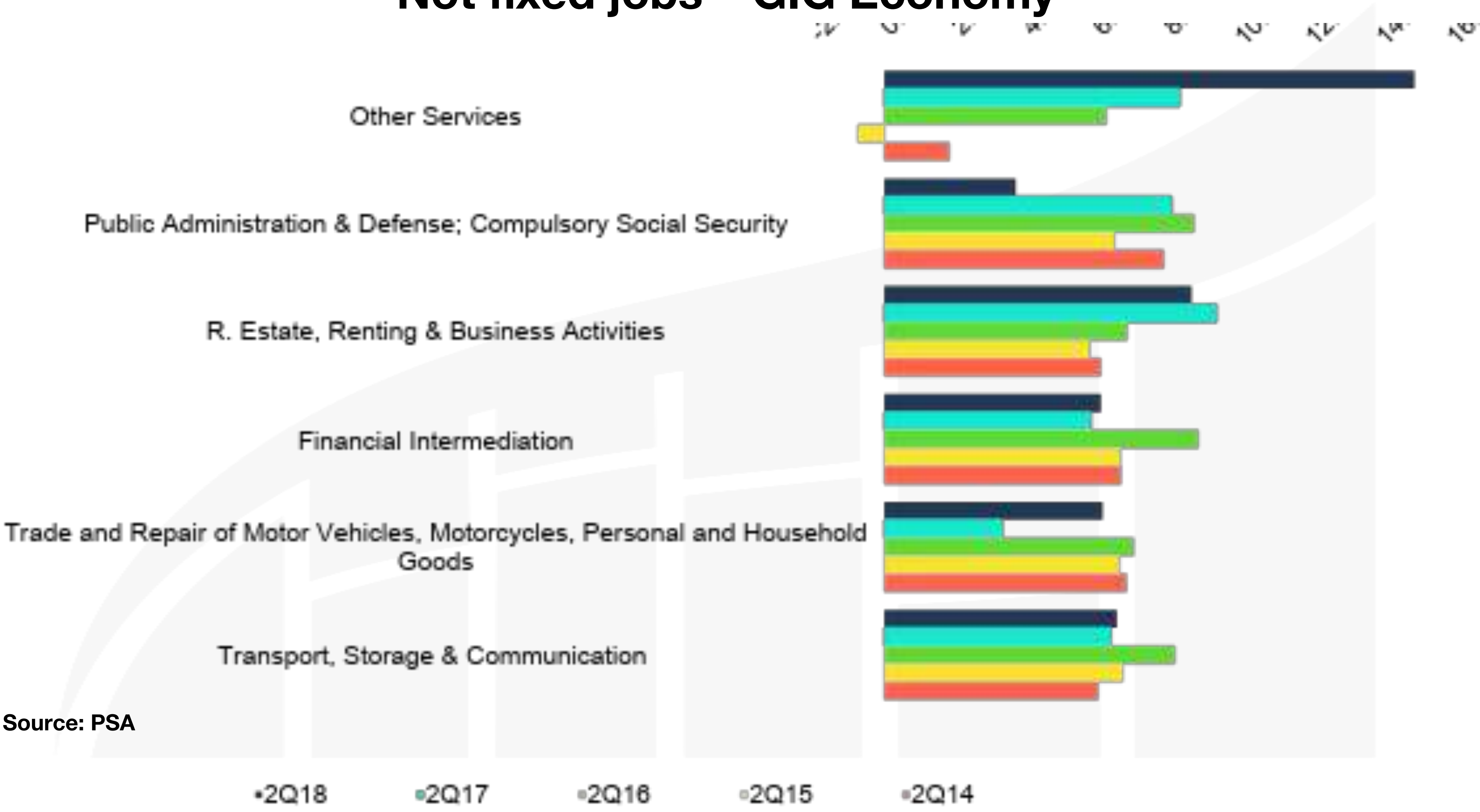


TRADE leads as the services sector's driver



People are moving to high value services

Not fixed jobs – GIG Economy



Source: PSA



Top 12 Priorities for Domestic & Exports Markets



Electrical & Electronics



IT BPM, E-Commerce



Agri-business



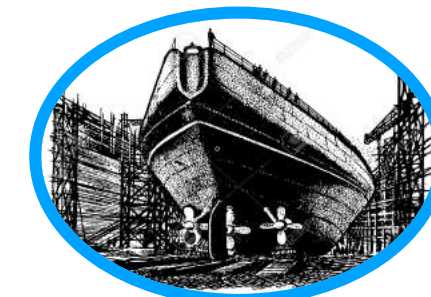
**Transport, Logistics,
Construction**



Auto & Auto Parts



Tool & Die, Iron & Steel



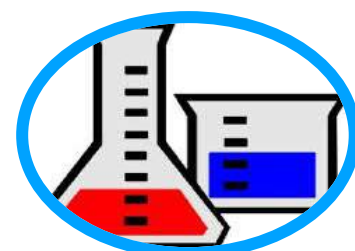
Shipbuilding, RORO



Innovation, R&D



Aerospace Parts



Chemicals



Furniture, Garments, Creative

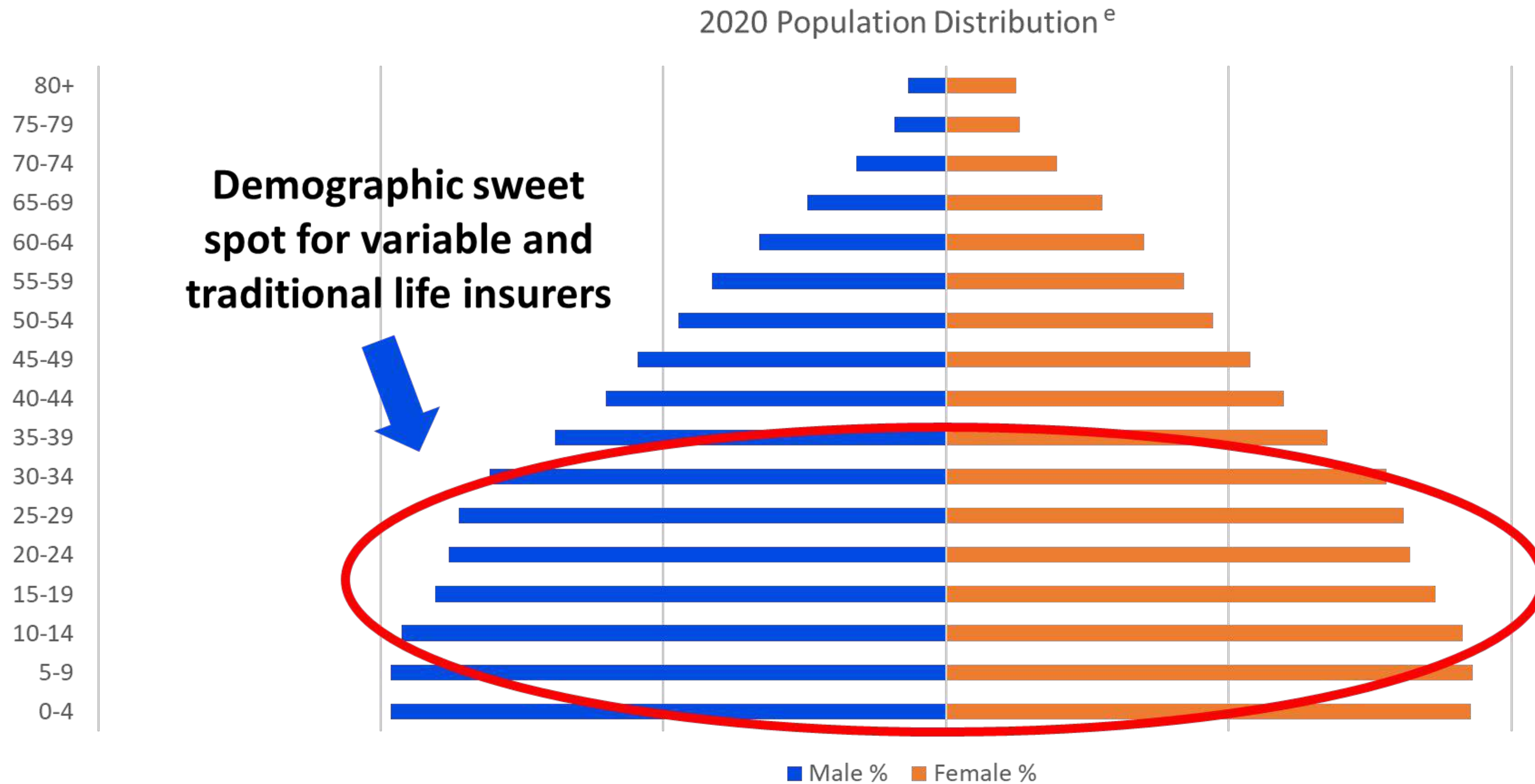


**Inclusive Business,
Climate Change**

**Hi-technology, innovation/R&D, infrastructure, regional imbalance, labor-intensity, sustainability,
spill-over/multiplier effects, value/supply chain linkage**

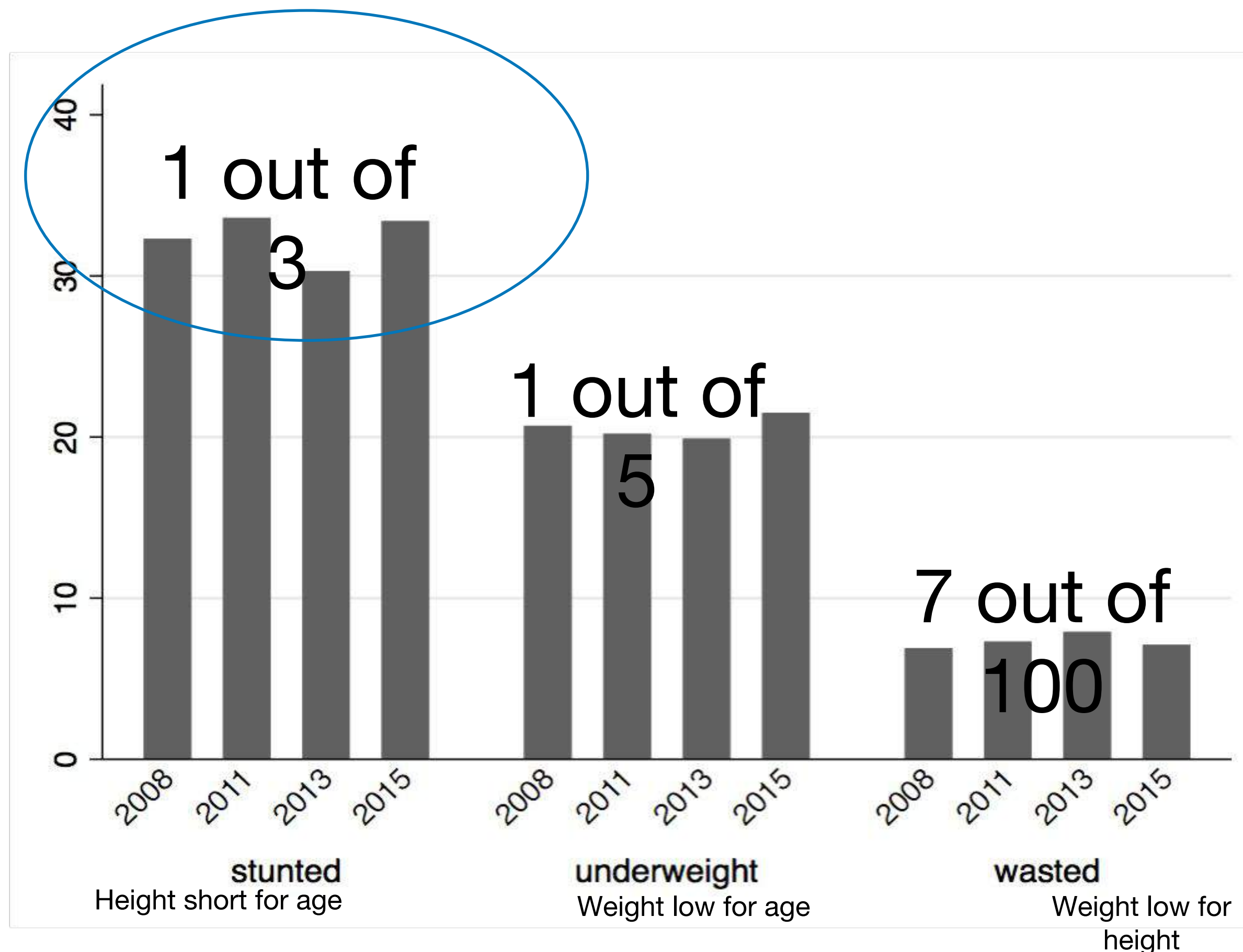


Demographic Sweet Spot Ahead!



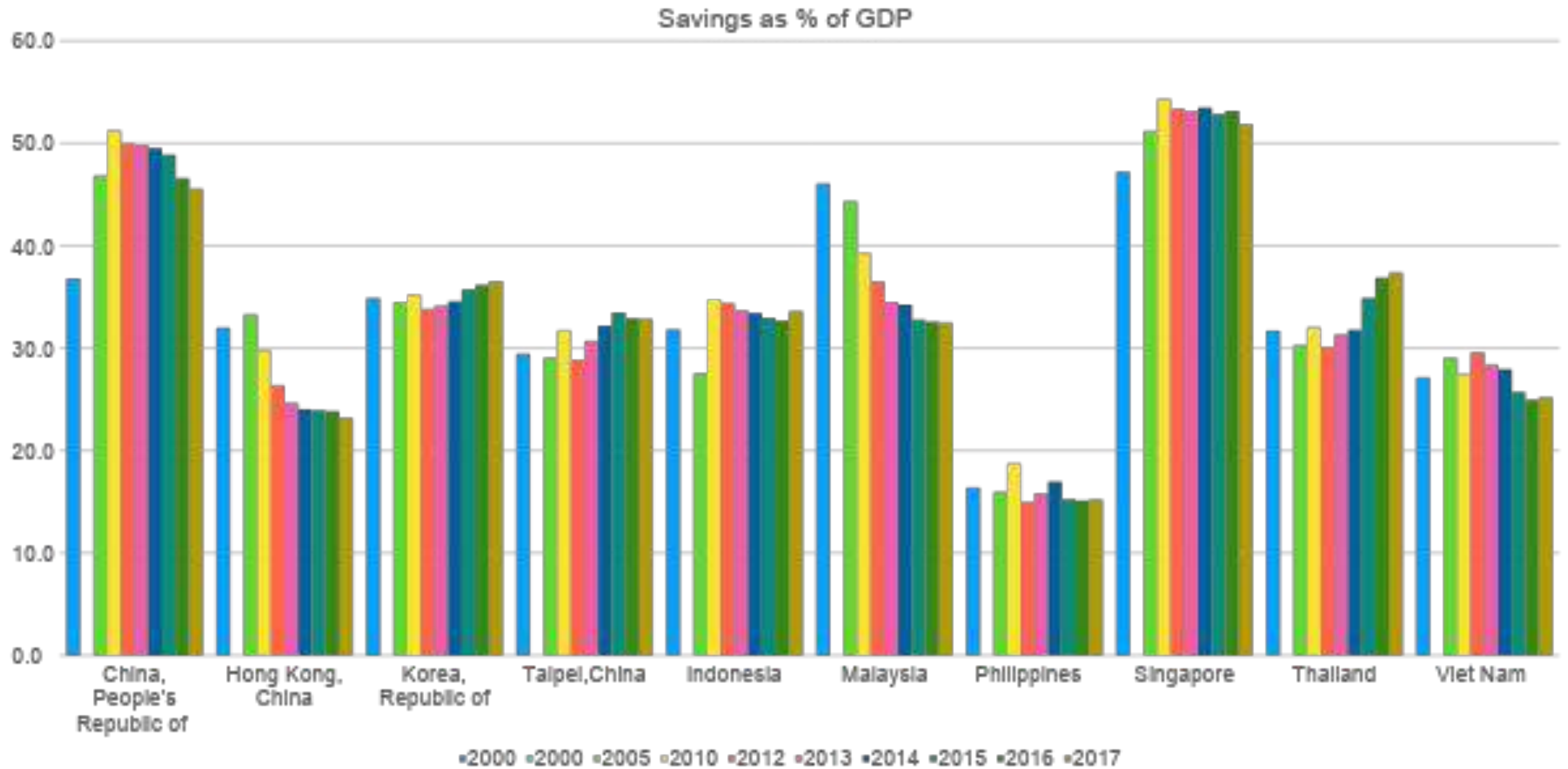


Trend of malnutrition in the Philippines



ALARMING BECAUSE
NO SIGNIFICANT
DECLINE
OBSERVED IN THE LAST
10 YEARS

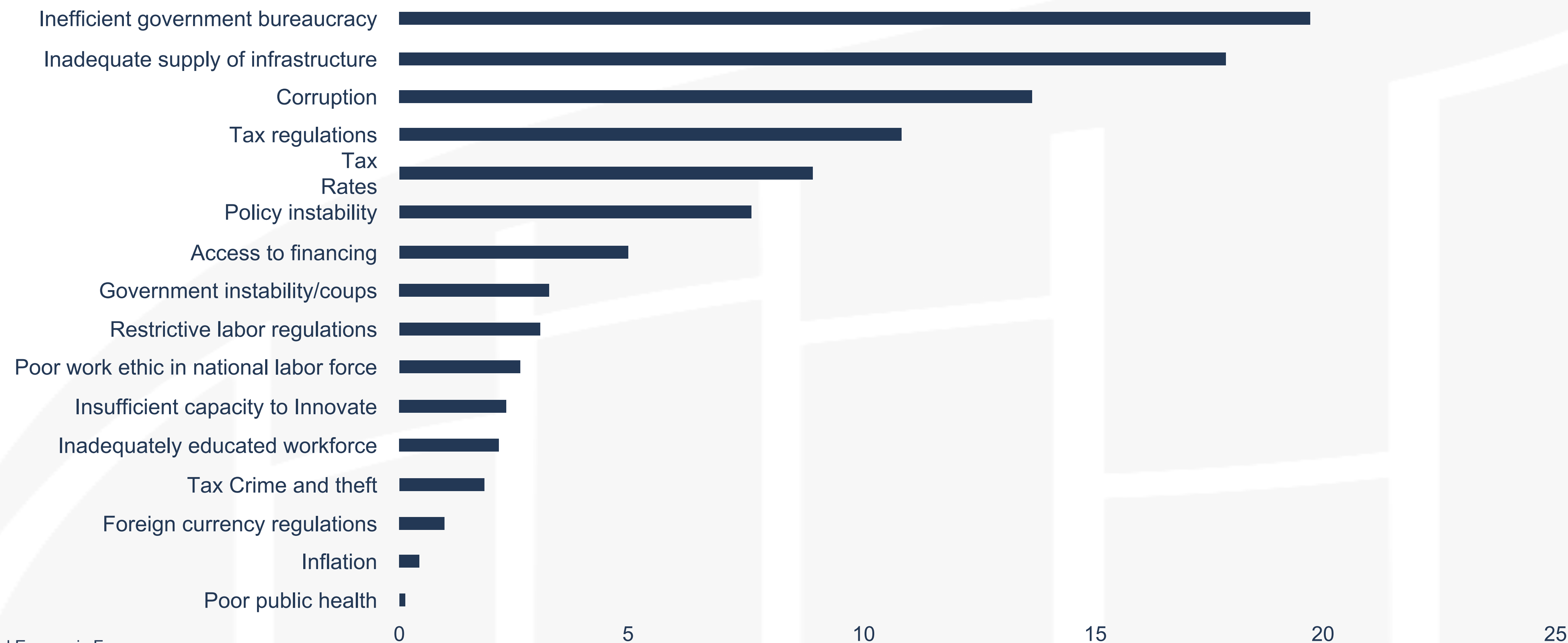
Source: World Bank. World Development Indicators. <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed October 2018).



LOWEST SAVINGS RATE IN EAST ASIA

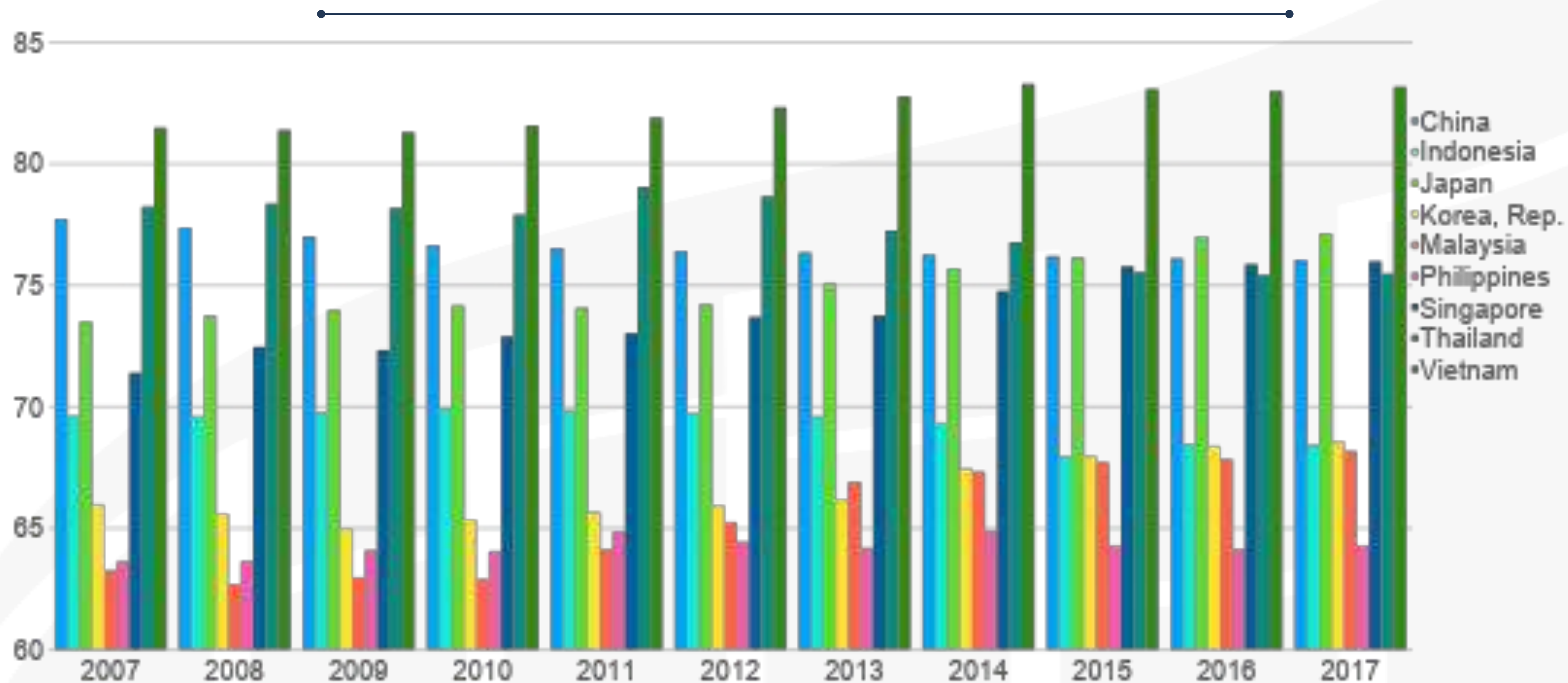
Lack of incentives is not a leading problem for doing business in the Philippines

Most problematic factors for doing business in the Philippines, 2017



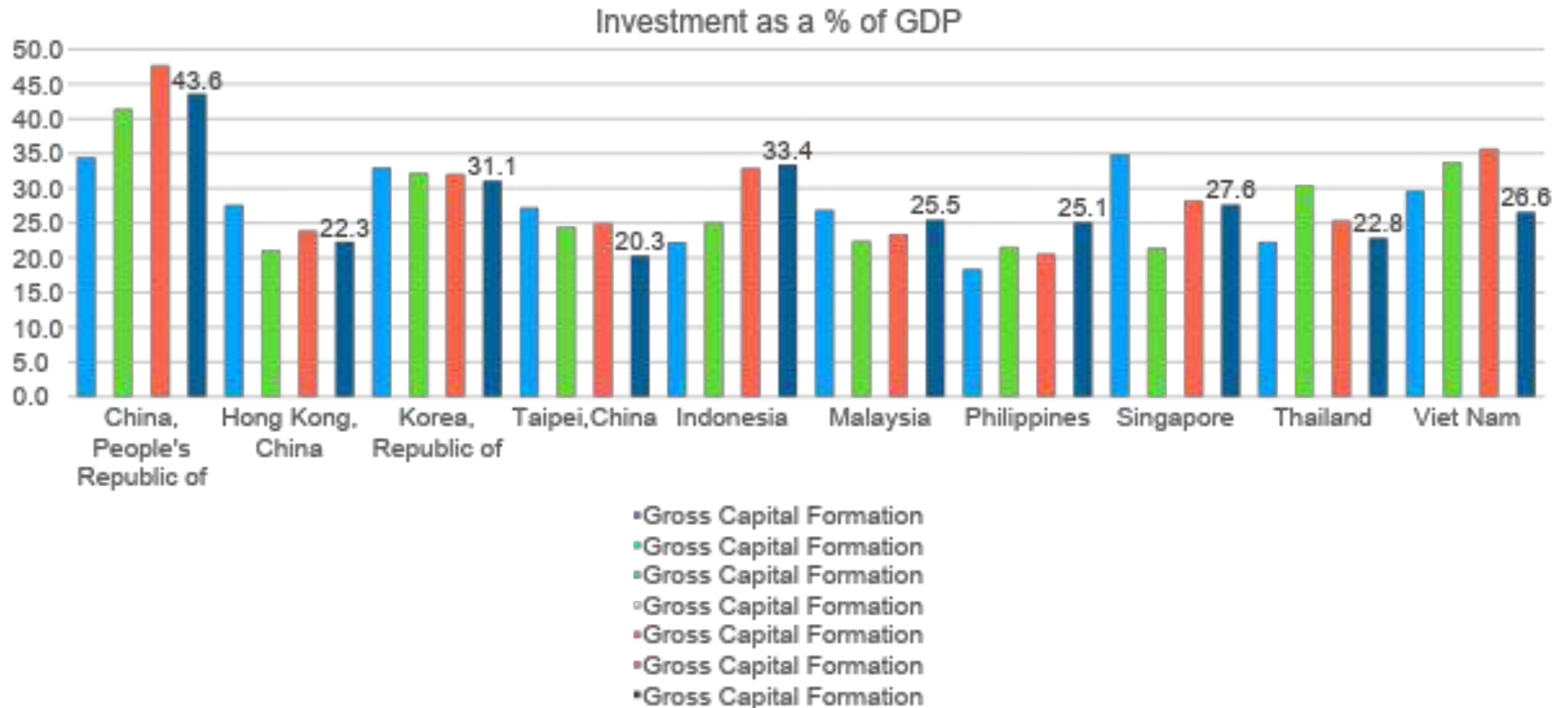
Source: World Economic Forum
Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score correspond to the responses weighted according to their rankings

LABOR FORCE PARTICIPATION RATE, TOTAL (% OF TOTAL POPULATION AGES 15-64)





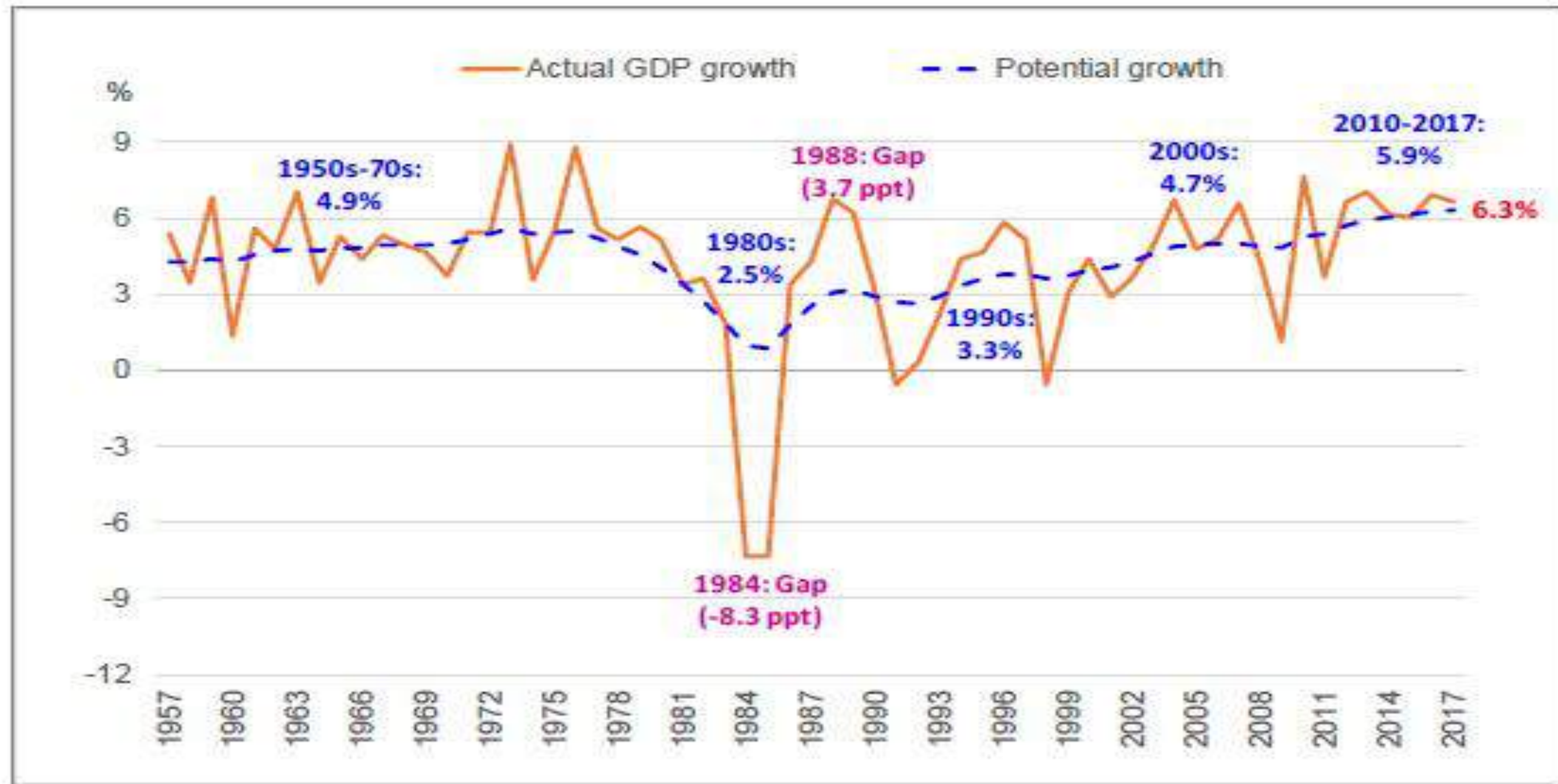
Philippines the only one consistently rising investment!



Source:ADB

Despite challenges...

Actual vs Potential



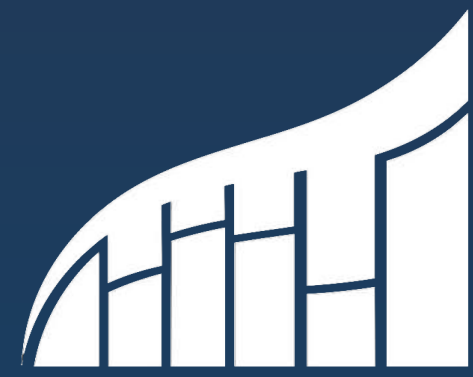
Directions

- Short Term – ELECTION WILL BOOST LOCAL ECONOMY, POPULAR MEASURES – Peso will continue to be weak, Interest and Inflation tempering...PRESSURES FOR WAGE INCREASES
- Medium Term – INFRASTRUCTURE WILL CONTINUE BEYOND 2022, INVESTMENTS IN CCT WILL COME ON BOARD ENSURING BETTER HUMAN RESOURCES
- Long Term – INFRASTRUCTURE RETURNS WILL HELP BOOST MIDDLE INCOME STATUS BY 2025

Expectations

INDICATOR	FORECAST
1Q19	6.2%
2Q19	6.6%
3Q19	6.2%
4Q19	6.3%
GDP 2019	6.3%
EXCHANGE RATE (AVERAGE)	52.66 (2018) 53.50 (2019)
INTEREST RATE (AVERAGE 91 DAY TBILL)	3.5% (2018) 5.0% (2019)
INFLATION	Average 5.3% (2018) 3.3% (2019)
REMITTANCES GROWTH	3.0%

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ATENEO EAGLE WATCH

THANK YOU AND
GOD BLESS!
AMDG!

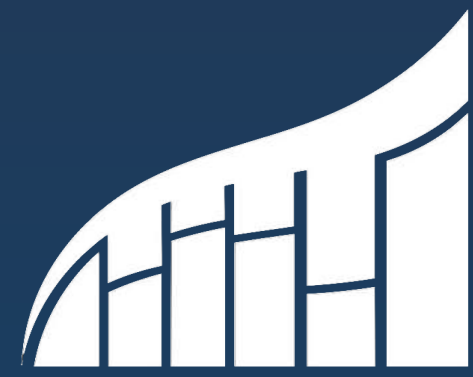


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B
M

Business Mirror
(every Friday)