INFLATION, POVERTY AND THE TRAIN LAW

Dr. Dennis S. Mapa[1] and Angelie Grace B. Aycardo[2]
University of the Philippines Diliman

The first semester of the implementation of the Republic Act 10963, also known as the Tax Reform for Acceleration and Inclusion (TRAIN Law), saw the poor (defined in this study as the poorest 30 percent of the household population) suffered the most in terms of their welfare due to the increasing prices of goods, particularly food items such as rice. Using data from the 2012 Family Income and Expenditure Survey (FIES) and the 2018 Monthly Inflation Report (Base Year 2012) of the Philippine Statistics Authority (PSA), the authors estimated that average inflation rate of the poorest 30 percent of the households during the first semester of 2018 is about 5.0 percent (using a comparative base year of 2012), compared to the average 4.3 percent for the headline inflation. Moreover, the authors forecast that 2018 full year average inflation of the poorest 30 percent of the households will reach between 5.5 to 6.0 percent, way above the 4.0 ceiling target of the government, and last seen in 2009 during the aftermath of the global rice price and oil price hikes.

The authors will further argue that government low forecast numbers for inflation rate are due to three reasons, namely: (a) the government economic managers underestimated the impact of the provision of the TRAIN Law (e.g. excise taxes on oil and sugar-sweetened beverages) on the inflation of the poor; (b) coordination failure of government agencies in implementing the safety net provision of the law (e.g. unavailability of cheaper (NFA) rice), and (c) the unfortunate timing of the TRAIN Law being implemented when prices of Crude Oil is increasing and the Peso depreciating against the US Dollar.

Using Vector AutoRegressive (VAR) and Time-Varying Parameter (TVP) models, the paper will show that increasing inflation rate of the poorest 30 percent is a threat to mitigating poverty and hunger efforts. In addition, using historical data on poverty from the PSA, the study will show that during years of high inflation rates for the poorest 30 percent of the households, poverty incidence failed to reduce significantly. Since 2018 is FIES year and given the high inflation rate of the poorest 30 percent of the households, reducing poverty incidence from 21.6 percent in 2015 to about 18 percent in 2018, as per target of the government, will be highly improbable.

The higher-than-expected inflation rate experienced by the poorest 30 percent of the households has impact on the cash transfer provided by government to the poor, as part of the safety protection of the TRAIN Law. The authors will show than current cash transfer of Php 2,400.00 per year is not enough to compensate the poor for the increasing prices. Using simulations, the authors will provide alternative estimates of the appropriate cash transfers.

[1] Professor and Dean, School of Statistics, University of the Philippines Diliman and Immediate Past President of the Philippine Statistical Association, Inc. (PSAI). Dr. Mapa wishes to thank Ms. Denise Serrano for excellent research assistance in dissecting the expenditures of the poorest 30 percent of households from the 2012 FIES. Email address: csmapa@up.edu.ph.
[2] MA Economics Student, University of the Philippines School of Economics.

One important policy handle for the PSA is to further improve its reporting on the inflation rate of the poor. The authors will further argue the need to mainstream the reporting of the inflation rate of the poorest 30 percent of the households considering its impact on social welfare. This can be done by updating to the 2012 base year, the PSA Consumer Price Index (CPI) of the poorest 30 percent (from the current 2000 base year) and making the report monthly, rather than quarterly, similar to the practice of the agency in reporting the headline inflation.

Key Phrases: Inflation Rate for the Poorest 30 Percent, TRAIN Law, Vector AutoRegressive Model, Time-Varying Parameter Model.