DLSU-AKI POLICY BRIEF
2025-05-054, MAY 2025

DLSU REPORT OF THE PHILIPPINE ECONOMY

Authors: Jesus Felipe, Mariel Monica Sauler, Gerome Vedeja, Clarence Gabriel Fernandez (*)

The Philippine Statistics Authority (PSA) announced in May 2025 that the Philippine economy recorded a year-on-year growth of 5.4% in Q1 2025, well below the national target range of 6-8%.

Table 1 provides the year-on-year growth forecasts from Q1 2025 to Q4 2025, Y2025 and Y2026. Our growth forecast for 2025 is 5.33%, still below the government's current target of 6-8%. While our Q2 2025 forecast indicates an even lower growth rate (4.77%), growth will pick up significantly during the second half of the year, especially during the last quarter (6.11%), when the economy will grow at its potential.

TABLE 1: YEAR-ON-YEAR PERCENTAGE CHANGE FORECAST Q1 2025 TO Q4 2025, Y2025-Y2026

	2024	2025Q1	2025Q2	2025Q3	2025Q4	2025	2026
GDP	5.65	5.35	4.77	5.06	6.11	5.33	5.58
Private Consumption	4.88	5.23	5.91	5.82	4.61	5.39	5.93
Government Expenditure	7.04	17.31	14.77	12.07	10.89	13.68	11.99
Gross Capital Formation	7.28	4.60	3.10	2.17	4.61	3.62	6.04
Exports	3.84	5.68	4.34	4.03	3.54	4.40	2.93
Imports	3.67	9.50	7.13	5.50	5.61	6.93	7.34
Agriculture	-1.89	1.55	1.90	2.35	2.55	2.09	2.59
Industry	5.51	4.32	4.35	5.10	6.23	5.00	4.91
Service	6.75	6.33	5.33	5.38	6.50	5.89	6.26

Source: Authors' calculations based DLSU monthly model of the Philippine economy.

The Philippine High Frequency Model of De La Salle University (DLSU) generates monthly and quarterly forecasts of the Quarterly National Accounts, reported by the Philippine Statistics Authority. The model uses Quarterly National Accounts and over 50 monthly indicators. The process involves pooling the indicators into factors used for predicting both the National Accounts and the indicators themselves. The predicted values of the National Accounts undergo disaggregation and benchmarking to obtain the forecasts. This report presents the actual and forecast year-on-year (y-o-y) and quarter-on-quarter (q-o-q) percentage changes of the National Accounts, and y-o-y growth rates of the indicators, based on the latest available information.

Scan QR code to access previous reports

(*) Jesus Felipe is Distinguished Professor in the Department of Economics, De La Salle University
Mariel Monica Sauler is Associate Professor in the Department of Economics, De La Salle University
Gerome Vedeja is Lecturer in the Department of Economics, De La Salle University
Clarence Gabriel Fernandez is Research Assistant in the Angelo King Institute, De La Salle University

DLSU REPORT OF THE PHILIPPINE ECONOMY

Overall, domestic demand drives short-term economic growth. Private consumption is projected to increase by 5.91% in Q2 2025, with slight dips towards the end of the year before settling at 5.39% for the whole 2025. Although lower than in Q1 2025, our forecast shows that government spending will rise by 14.77% in Q2 2025. Public spending is forecasted to decline throughout the year, but it is expected to far outpace the growth in total output. Gross capital formation is also predicted to increase at a slower rate in Q2 2025 at 3.1% (in comparison to 4.6% in Q1 2025), eventually averaging at 4.92% in 2025.

Our export growth forecast for Q2 2025 is 4.34%. This figure is lower than Q1 2025 and is anticipated to further increase at a slower pace in the remaining quarters before closing at 4.4% for the whole 2025. Such a trend may be attributed to the growing global trade uncertainties due to the reciprocal tariffs imposed by the United States. Meanwhile, import growth remains much larger in Q2 2025 at 7.13% and at 6.93% on average for 2025, widening the current Philippine trade deficit.

At the sectoral level, we forecast growth of 2.09% for Agriculture and a faster growth for Industry, 5%, and Services, 5.89%, for 2025.

These forecasts show that private consumption and government spending remain critical in stimulating short-term economic growth for the Philippines. Current growth prospects are supported by a five-year-low inflation rate of 1.4% and an increase in election-related spending. Despite these moderate economic gains, the country still continues to miss its current growth targets. Such slower growth, coupled with an easing inflation, provides more leg room for the Bangko Sentral ng Pilipinas (BSP) to pursue expansionary monetary policy. Indeed, BSP Governor Eli Remolona has flagged a possible cut in interest rates towards the end of the year. As borrowing costs fall and purchasing power rises with low inflation, such monetary easing serves as a vital policy tool to sustain private consumption, boost private sector investment, and increase capital formation. Robust domestic economic activity may also shield the Philippine economy from external shocks (i.e., the impact of US tariffs), given the country's "limited trade exposure."

We add that public spending seems to be geared towards public infrastructure. Yet, this is not the one-all be-all solution that the country needs in order to achieve sustained economic prosperity in the long haul. Unless the economy's potential growth increases as a result of economic transformation, actual growth will not increase and be sustained. We provide a discussion of this point below.

GROWTH AND ECONOMIC TRANSFORMATION

On May 9, DBM Secretary Amenah F. Pangandaman issued a statement commenting on the 2025 first quarter GDP growth rate. She acknowledged the low growth rate, 5.4% (annual[1] growth corresponding to January-march), but nevertheless showed optimism because all major economic sectors had registered positive growth during the first quarter.

In what follows, we make two constructive comments on her statement:

[1]https://www.dbm.gov.ph/index.php/management-2/3343-statement-of-dbm-secretary-amenah-f-pangandaman-on-the-2025-first-quarter-gdp.

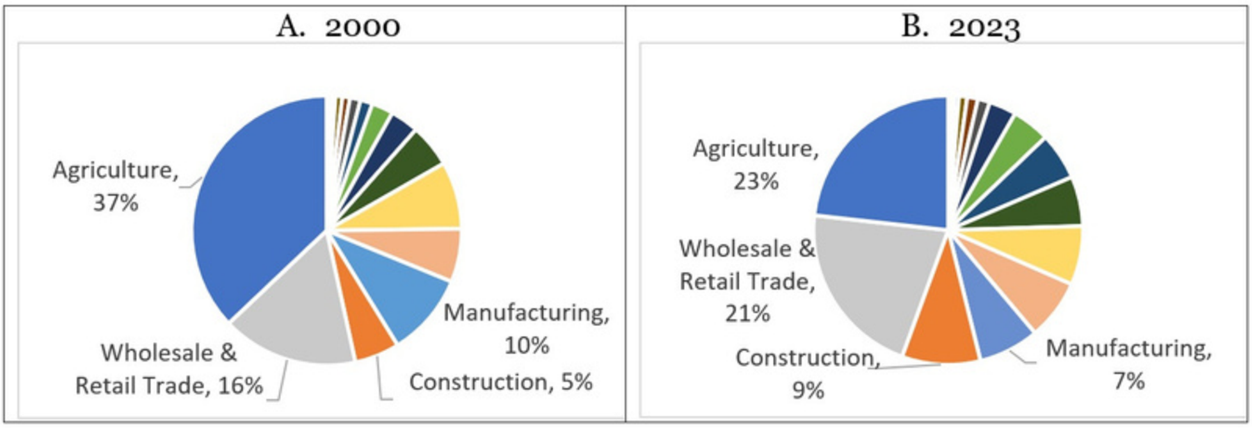
Data Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and other Philippine Government websites.

First, Secretary Pangandaman noted "the important role that government spending performance plays in stimulating the economy, especially amidst the expected slowdown in growth globally due to increasing economic uncertainty, U.S. trade policy changes, slowdown in China's economy, persistent geopolitical tensions, and fluctuations in commodity prices, among others." This is correct as government spending is an injection into the economy. We just hope this trend continues and does not get derailed by objectives such as the need to consolidate the budget. With or without the tariff war, the Philippines needs much more government spending to provide all the public services that the country needs.

Second, Secretary Pangandaman noted that the 5.4% growth rate in the first quarter contributes to attaining "the overriding objective of ensuring that we achieve not only growth but, more importantly, an *economic transformation* that is inclusive and sustainable" (our italics). We are delighted that the Secretary mentions economic transformation. What is not clear is what this means to the Administration and how the growth rate contributes to such objective -it is the other way around: economic transformation causes growth.

For a long time, we have said that we lag behind those of our neighbors because of the pace and direction of the transformation of the economy. Figure 1 shows sectoral employment shares in 2000 and in 2023. The share of employment in agriculture has been declining slowly since the year 2000, when it was 37%. In 2023, employment in this sector represented 23% of total employment (about 11 million workers). Productivity and wages in this sector are very low. The employment share that is increasing is that of the second major employer of our economy, wholesale and retail trade, from a share of 16% in 2000 to 21% in 2023. The third major employer in the Philippines is construction, 9% of the total. These three sectors currently employ well over 50% of all workers. These are low-productivity sectors (in level). This is the direction of our economy's "transformation", that this, into activities of low productivity. Service activities that pay higher wages are small employers in the Philippine economy. Manufacturing, the sector with much higher potential for productivity growth, employs only about 7% of all workers. While the number of workers in manufacturing has increased (by about half a million since 2000), the growth of employment in other sectors has simply been faster. As a consequence, employment share in manufacturing has decreased to 7% - this is a very low share.

FIGURE 1. EMPLOYMENT SHARES, 2000 AND 2023

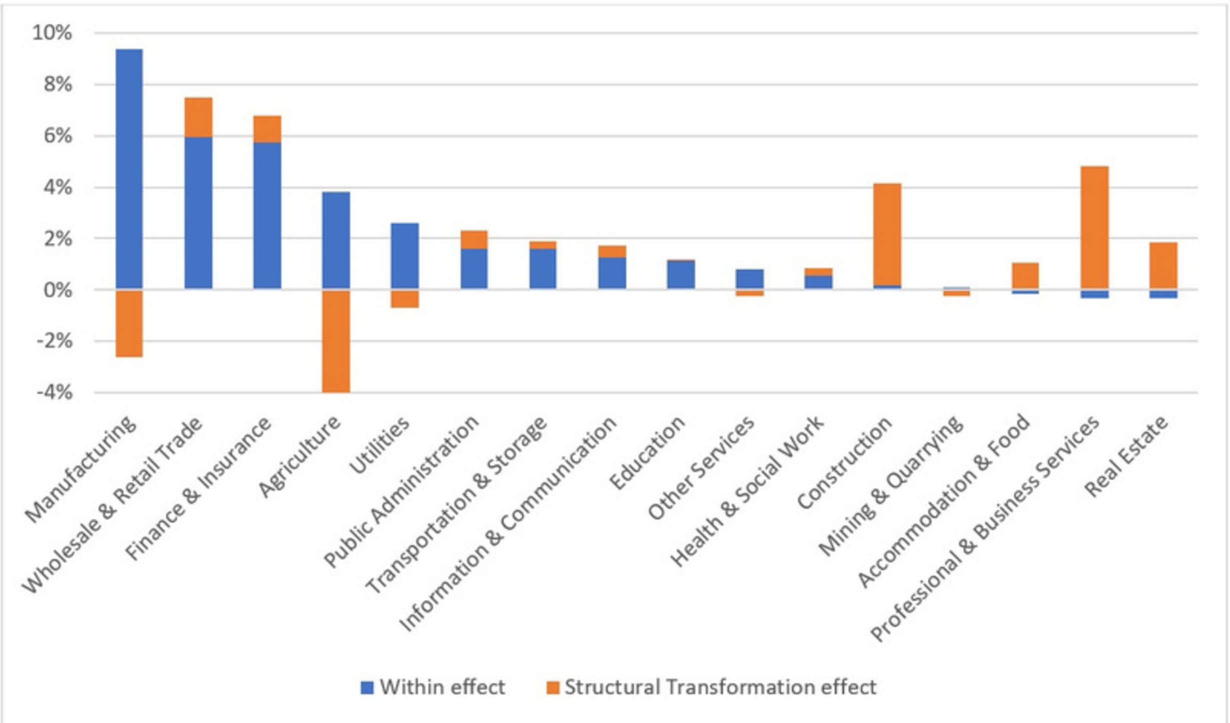


Source: Philippine Statistics Authority; DLSU ANIMO Econometric Model Database.

DLSU REPORT OF THE PHILIPPINE ECONOMY

Growth, in particular aggregate productivity growth (the growth of output per worker), is the result of two forces. First, productivity growth **within** each sector of the economy. Here, all our major sectors register positive growth. Second, to this one, we have to add a component of **economic (structural) transformation**. This is positive when the employment share of a sector increases and negative otherwise. In the Philippines, the economic transformation contributions (to aggregate productivity growth) of agriculture and manufacturing are negative. Figure 2 shows the decomposition of aggregate productivity growth into the within and structural transformation effects by subsector for 2010-2023. Aggregate productivity grew by 41% during this 13-year period. This corresponds to an annual growth rate of 2.70%. This is the sum of all bars, positive and negative, in the figure. Since the employment shares of agriculture and manufacturing declined, the result is that the positive within sector contribution of agricultural productivity growth is offset by the negative contribution of economic transformation. Overall, agricultural productivity contributes zero to aggregate productivity growth. In the case of manufacturing, positive within sector productivity growth is larger than the negative effect of economic transformation. Overall, the contribution of manufacturing to aggregate productivity growth is positive. The cases of construction, accommodation, professional Services, and real estate are interesting: they did not experience within sector productivity growth (perhaps expected). It was all due to the structural transformation effect, that is, the share of workers in these sectors increased. It is also worth mentioning that the two other important sectors pulling productivity growth in the Philippines are wholesale and retail Trade, and finance and insurance. In these two sectors, both the within and structural transformation effects are positive. Finally, we mention that all sectors contributed to the 41% productivity growth during this period, except agriculture and mining. About half of it came from manufacturing, wholesale and retail trade, and finance, the three most dynamic sectors of the economy.

FIGURE 2. DECOMPOSITION OF PRODUCTIVITY GROWTH, 2010-2023



Source: Philippine Statistics Authority; DLSU ANIMO Econometric Model Database; Authors' calculations.

Data Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, and other Philippine Government websites.

DLSU REPORT OF THE PHILIPPINE ECONOMY

There is an additional point worth mentioning. This is the role of the government in transforming the economy. Economic transformation in the Philippines is led by the private sector, not by the government, as it should be in a market economy (though see below). Firms create activity and employment. The problem here is that most of the jobs our private sector creates are low-productivity (what we pointed out above). This is the case of delivery workers, sales staff, security guards, waiters, or helpers. Yes, we still have plenty of low-productivity jobs in sectors where, by their intrinsic nature, productivity cannot increase.

It is true that some service activities pay relatively higher salaries but employment in these sectors represents a small share of the total in a country with almost 50 million workers, and will never be major employers (e.g., BPO, finance). Employment in manufacturing is increasing in absolute numbers but more slowly than total employment, which means that employment in other activities (services) is increasing faster, with the result that the share of manufacturing is just about 7%, and decreasing. This poses a very serious problem for the future of the Philippine economy. The hard fact is that the Philippines will not industrialize today like South Korea did in the 1970s and 1980s but we should find important niches for the sector to succeed and the employment share to increase. To do this, we need firms that can export and compete in the world economy. Becoming a rich country is about being able to earn higher real wages. Some economic activities are more lucrative than others, e.g., manufacturing, some services. Countries that specialize in such activities enjoy a higher level of real wages. Ultimately, the primary driver of growth is the gradual build-up of firms' capabilities (in particular, organizational capabilities to absorb and adapt advanced technologies). This is also the only way for real wages to increase.

What is the role of the government here? While the Philippine government continues to highlight the role of infrastructure spending in the country's short-run growth, investment in more roads (alone) will not do it. We need a solid manufacturing sector and this calls for a serious industrial policy, something that this country has always avoided, with obvious negative results. Our neighbors did it; the advanced countries did it. There is no single relevant example (just in case, the Emirates is not a relevant example) of a nation that reached high income (hence its economic structure changed) without industrialization and without government intervention. This industrial policy is much more than the reforms we implement or some recent initiatives celebrated by the private sector because they amount to lower taxes. We do not have anything against these incentives. The problem is that they will not engineer the economic transformation that our economy requires. We believe these initiatives will not deliver the targeted 8% growth. They will help companies increase profits (we applaud it) but not to transform the economy in the sense of creating a larger and better manufacturing sector that will create jobs that pay higher wages, and that will infuse higher productivity growth into our economy.

Summing up: economic transformation? Yes, but let's understand what this means: Manufacturing-Productivity-Exports-Firms.

We close by saying that we are less optimistic than the government, not because we think that the economy is not moving forward (and we acknowledge how difficult this is in the current geopolitical context) but because the government has set targets that are out of our economy's reach (growth of up to 8%). We do not think growth in 2025 will be much higher than in the first quarter. We have revised our forecast for this year down from 5.8% (our April report) to 5.3%. The evidence is overwhelming now that world growth will be affected by the American tariff decisions (the IMF forecast for 2025 is 2.8%). The Philippines will not be immune to this. Even if it is not a direct effect as a result of the increase in the tariff rate applied to Philippine products (see the April report on this), the indirect effect (as a result of lower growth in the rest of the world) will be felt.

We do not know how the second half of the year will play out, whether another conflict will dampen expectations, or whether the tariff war will finally settle and at what levels. As of the time of writing this report, the US and China are meeting in Switzerland and it seems that talks are going well. After the first meeting, the two countries agreed to reduce their tariffs during 90 days, the US from 145% to 30% and China from 125% to 10%. Even in the best scenario, Philippine growth will not be much higher than 6% on a sustained basis, that is, for a significant number of years. The Administration has yet to fully acknowledge that the potential growth of the economy is about 6%. Key reason? Guess what: the structure of our economy. Higher growth requires changing the structure of the economy.