DLSU REPORT OF THE PHILIPPINE ECONOMY
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Revised and re-revised targets: still out of reach

Our October 2025 forecasts indicate that the Philippine economy will moderately expand at 5.3% in 2025. This figure is slightly lower than our September 2025 forecast (5.35%) and is below the government's updated target range of 5.5-6.5% for 2025. Consistent with our previous estimates, the economy is anticipated to ease in Q3 2025 (4.6%) before bouncing back to the five-percent mark in Q4 2025 at 5.65%. Growth in 2026 (5.59%) and 2027 (5.83%) may slightly increase to 5.6% and 5.8% in 2026 and 2027, respectively. With the information available and the state of the economy, we firmly believe that growth will remain below the revised 6-7% target band by the Philippine government for these two years.

Table 1: Year-on-Year Growth Rates (%)
Actual (2024-2025 Q2) and Forecasts (2025 Q3-2027)

	2024	2025Q1	2025Q2	2025Q3	2025Q4	2025	2026	2027
GDP	5.7	5.4	5.5	4.60	5.65	5.3	5.59	5.83
Private Consumption	4.9	5.3	5.5	6.61	4.70	5.51	6.33	5.84
Government Expenditure	7.3	18.7	8.7	3.69	3.90	8.39	11.37	11.38
Gross Fixed Capital Formation	6.3	6.5	2.6	3.77	3.27	4.49	1.60	2.41
Exports	3.3	7.1	4.5	2.39	2.92	3.98	5.29	4.96
Imports	4.2	10.3	2.9	2.27	4.11	5.11	6.68	5.64
Agriculture	-1.5	2.2	7.0	6.61	6.75	5.31	6.80	6.14
Industry	5.6	4.6	2.1	2.17	3.44	2.97	2.94	2.32
Service	6.7	6.2	6.9	5.47	6.52	6.26	6.63	7.30

Source: Philippine Statistics Authority (actual), DLSU High-Frequency Model of the Philippine Economy (forecasts)
Notes:
(i) a — Actual values
(ii) The forecasts generated by the DLSU High-Frequency Model of the Philippine Economy are based on the Seasonally Adjusted National Accounts.

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.

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Our forecast projects household consumption to grow by 5.51% in 2025, with a notable performance in Q3 (6.61%) and a deceleration in Q4 (4.7%). We anticipate that consumer confidence will remain robust as inflation continues to float within the Bangko Sentral ng Pilipinas'

(BSP) target of 2-4%. The recently announced rate cuts this month are also expected to boost household consumption, increasing by 6.33% in 2026 and 5.84% in 2027.

We predict a significant dip in Q3 2025 at 3.69% and Q4 2025 at 3.9% as the Philippine government will postpone bidding for infrastructure projects. Government spending growth is expected to eventually settle at 8.39% this year, mainly pulled up by higher expenditure levels in the first two quarters of 2025. Although slated to bounce back in 2026 (11.37%) and 2027 (11.38%), the question of the role of the public sector in supporting economic expansion poses a dilemma. On the one hand, the administration will try to spend to propel growth so as try to reach at least the lower end of the target, 5.5%. On the other hand, the Philippine administration has to resolve the recent corruption fiasco to improve economic confidence, an outcome that looks bleak at present. Increasing spending will be seen with suspicion,

Similar to our previous monthly reports, growth in gross fixed capital formation continues to reveal a concerning trend. Compared with the actual 2024 figure (5.78%), the last two quarters show a slower growth in capital formation in Q3 (3.77%) and Q4 (3.27%) before closing at 4.49% in 2025. Recent reports also indicate that, though actual manufacturing output rose by 1.4% in August 2025 in anticipation of strong holiday demand and production “front loading” (to prepare for the effects of the US tariffs), Philippine factory activity contracted as the Purchasing Managers’ Index (PMI) dropped from 50.8 in August 2025 to 49.9 in September 2025. Thus, we project that the industry sector output growth will remain pale in 2025 at 2.97%, with further stagnation predicted in 2026 (2.94%) and 2027 (2.32%).

We forecast export growth to increase by a meagre 2.39% in Q3 and 2.92% in Q4, settling at 3.98% in 2025. Our indicators may be already capturing slower activity amid rising uncertainties in global trade. Conversely, our October estimates for import growth is at 2.27% in Q3 and 4.11% in Q4, closing at 5.11% this year. Despite foreseen export growth recovery in 2026 (5.29%) and 2027 (4.96%), it will be outpaced by import growth on both years (6.68% in 2026 and 5.64% in 2027), further widening the country’s trade balance.

On the supply side, a strong rebound in the agricultural sector output at 5.31% in 2025 is anticipated to counteract a lacklustre growth in the industry sector. Sustained expansion in this sector is also projected at 6.8% in 2026 and 6.14% in 2027. Furthermore, our estimates indicate resilient, consistent growth in the service sector output at 6.26% in 2025. The sector is also expected to drive economic growth in 2026 (6.63%) and 2027 (7.3%).

The takeaway

In a nutshell, while the Philippine economy has been expanding at a reasonable pace, our forecasts over the past months ascertain that the revised growth targets for both 2025 (5.5-6.5%) and 2026-2027 (6-7%) will be missed. Our bold claim is that, with the Philippine government’s understanding of the economy and recent domestic and global developments in the economic and political landscape, hitting even the lower band of these publicly announced growth targets may be a tall order—if not utterly impossible.

The BSP just cut rates for the fourth time this year. The market's reaction? Another surprise 25 basis point cut to 4.75%—as the economy's slowing and governance scandals linger. Standard textbooks indicate that rate cuts should stimulate borrowing, which accelerates growth, and lifts asset prices.

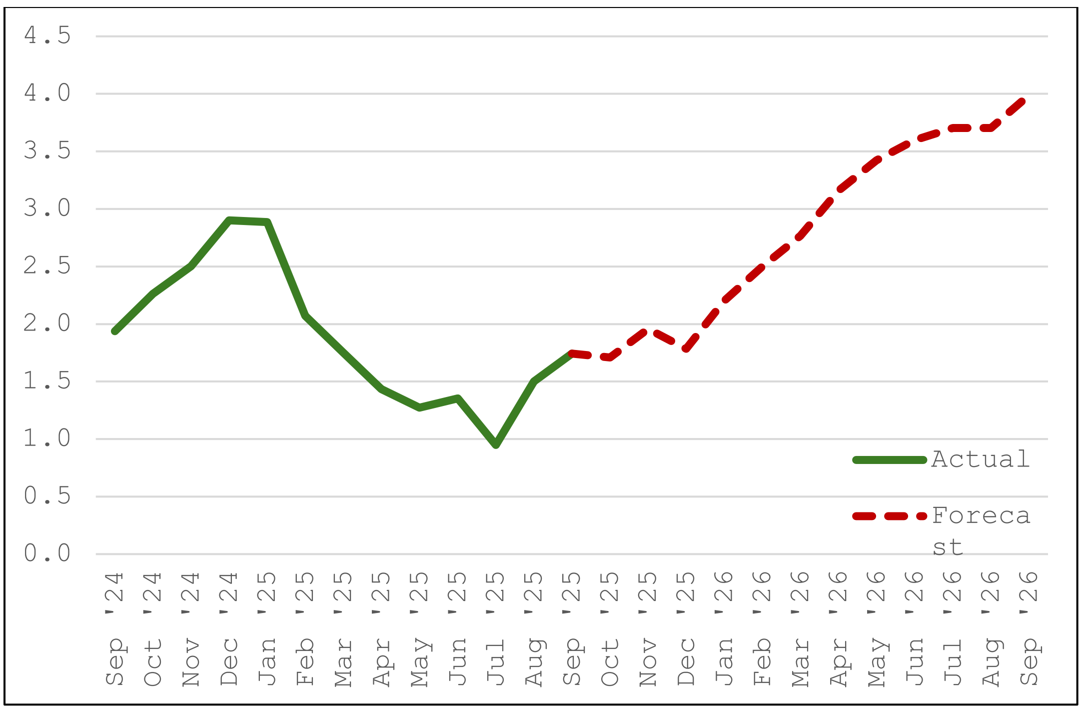
Yet, the result of lowering the policy rate the last three times was different. After a brief high, the economy went back to square one. The recent rate cut will do the same thing, very little. This is because monetary policy cannot do much to activate the Philippine economy. BSP cannot and will not rate-cut our way out of corruption investigations. This is the same as the inflation episode in 2022. It was not tackled as a result of higher interest rates.

The reality is that business confidence is on the floor; GDP growth is slowing; market sentiment is dominated by frustration and uncertainty about whether there will be a serious investigation, or not; and foreign inflows are nowhere near.

What the country needs is the standard development triad, which we have missed for decades: (i) political stability (we had it at some point); (ii) an economic agenda where manufacturing takes the center stage (no more useless reforms please); and (iii) a more active fiscal policy (of course, without corruption). We hope that what has been discovered recently does not lead to even lower government spending. No country has ever developed (attained high income) without an active government that spent on basic infrastructure and that was an active player in the economy. Not a single one.

Inflation

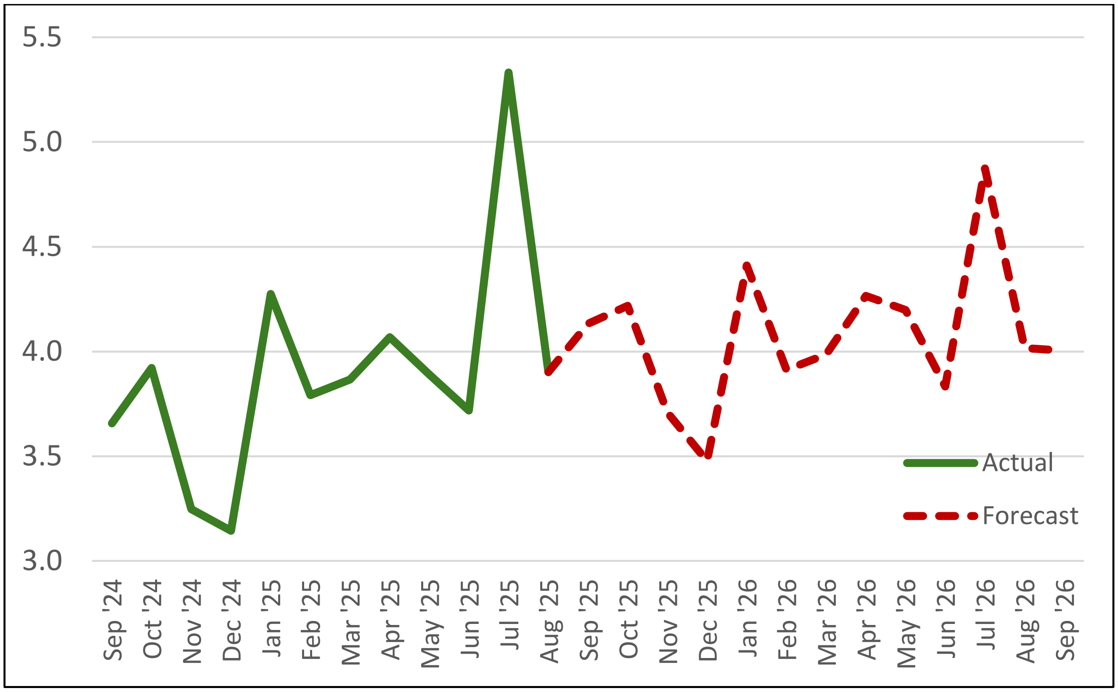
Figure 1. Inflation Rate (%, CPI 2018 = 100)



In September 2025, the inflation rate rose to 1.7% from the previous month's 1.5%. We forecast inflation to average at 1.7% for 2025.

Employment

Figure 2. Unemployment Rate (%)



Unemployment in August 2025 went down to 3.9% compared to 5.3% in July. We forecast unemployment to average at 4.0% for 2025.

Figure 3. August y-o-y Change in Employment (%, 2025 vs. 2024)

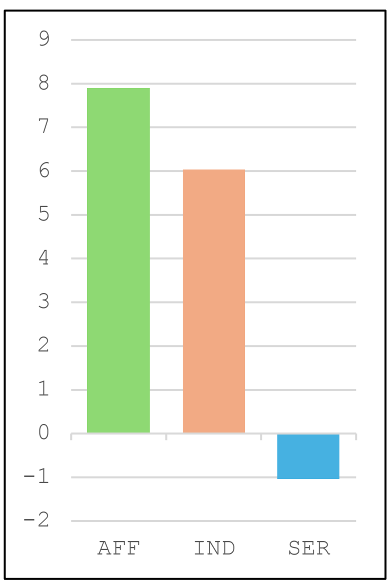
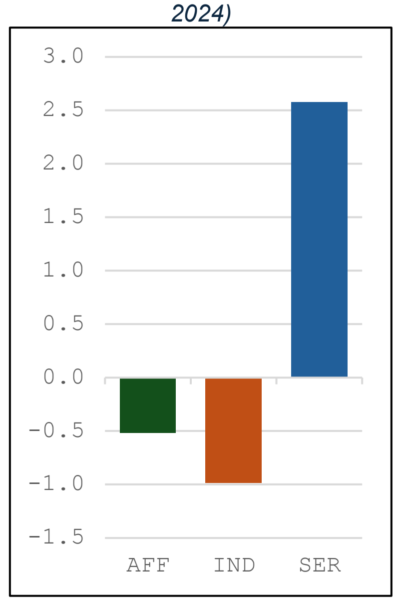


Figure 4. 2025 % Change in Average Employment (2025 vs. 2024)*

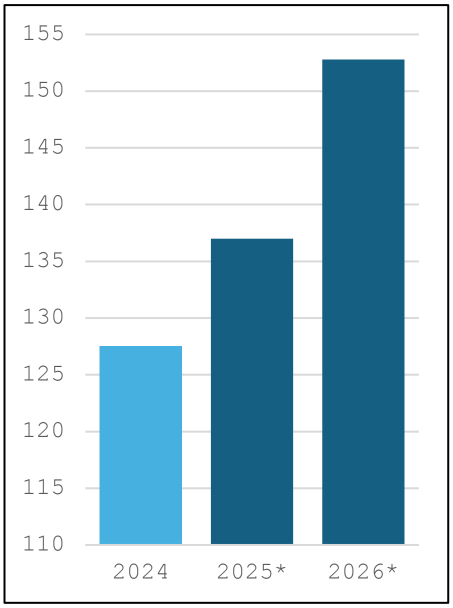


*September – December 2025 are forecasts

In August 2025, employment in AFF and IND grew by 7.9% and 6.0%, respectively, compared to August 2024. We forecast that the 2025 average annual employment for AFF and IND will be lower by 0.51% and 0.98%, respectively, than last year, while average employment in SER will increase by 2.6%.

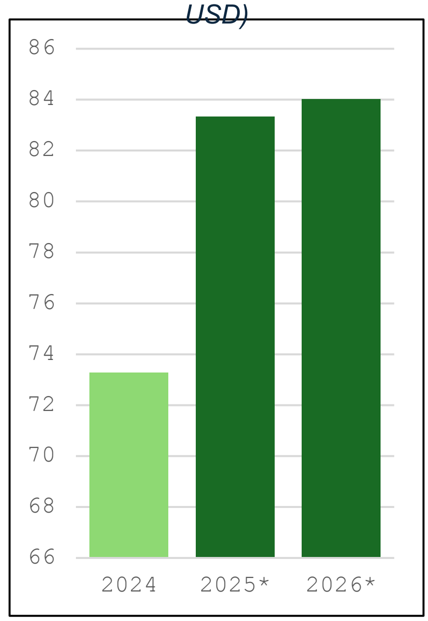
Trade

Figure 5. Total Annual Merchandise Imports (in billion USD)



**September-December 2025, 2026 values are forecasts.*

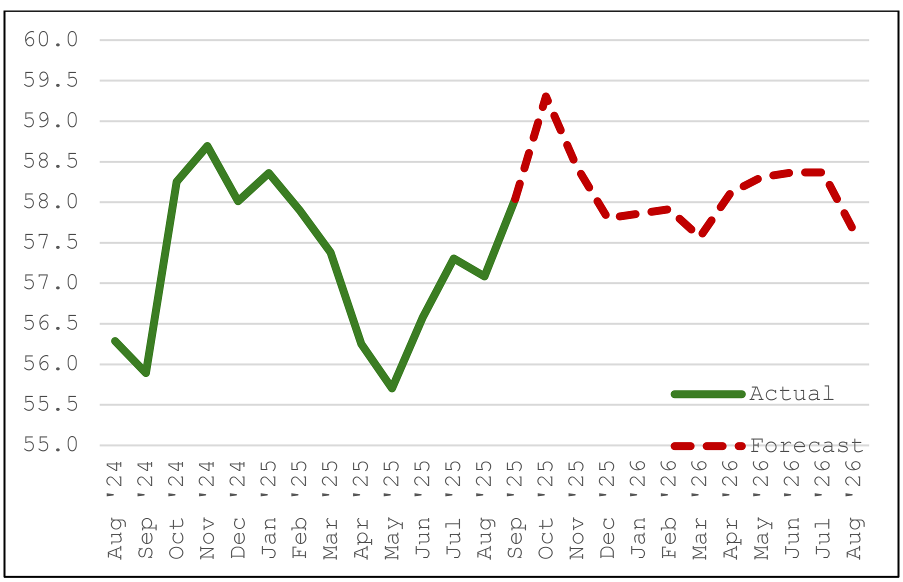
Figure 6. Total Annual Merchandise Exports (in billion USD)



**September-December 2025, 2026 values are forecasts.*

We forecast total merchandise imports for 2025 to be 7.4% higher than in 2024, while total merchandise exports for 2025 will increase by 13.7% over the previous year. In 2026, we forecast that the merchandise imports will grow faster at 11.5%, while merchandise exports to grow much slower by 0.8%.

Figure 7. PHP/USD Exchange Rate (end-of-period)



The PHP/USD exchange rate in September 2025 closed at 58.042. Our forecasts indicate that the exchange rate may close at 59.3 in October, and average at 57.5% for 2

Forecast Graphs of Selected Indicators

Figure 8. Employment by Sector (in millions)

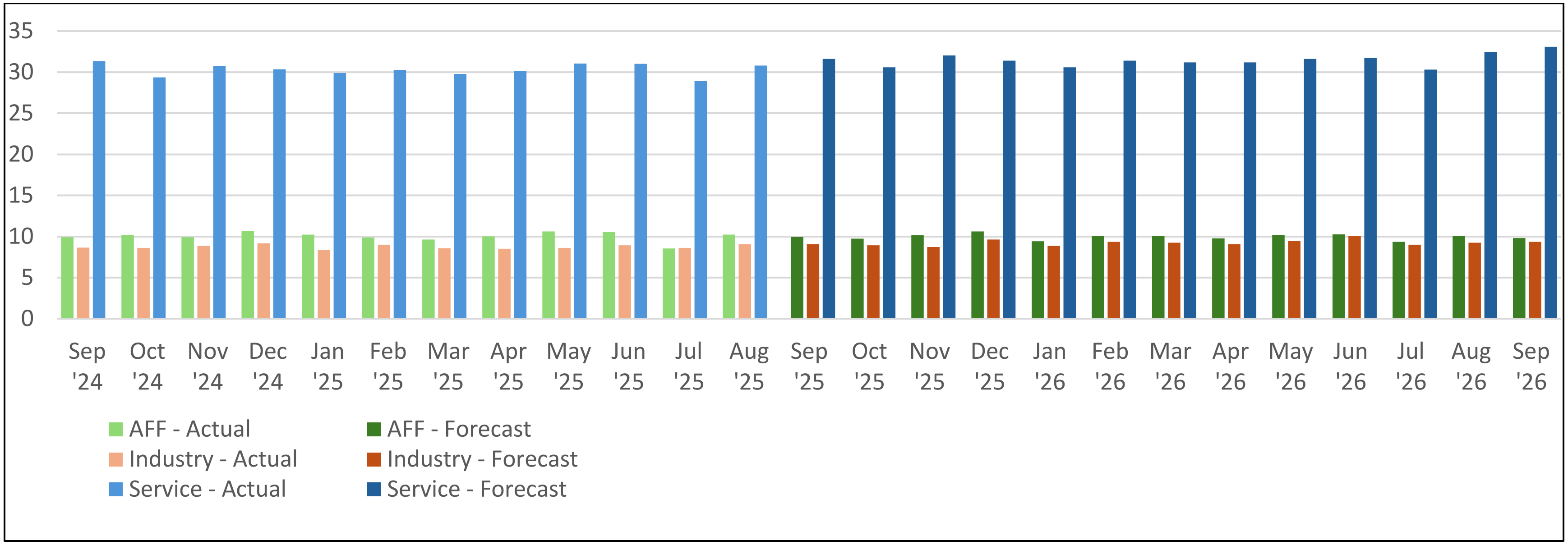


Figure 9. Average Capacity Utilization Rate (%)

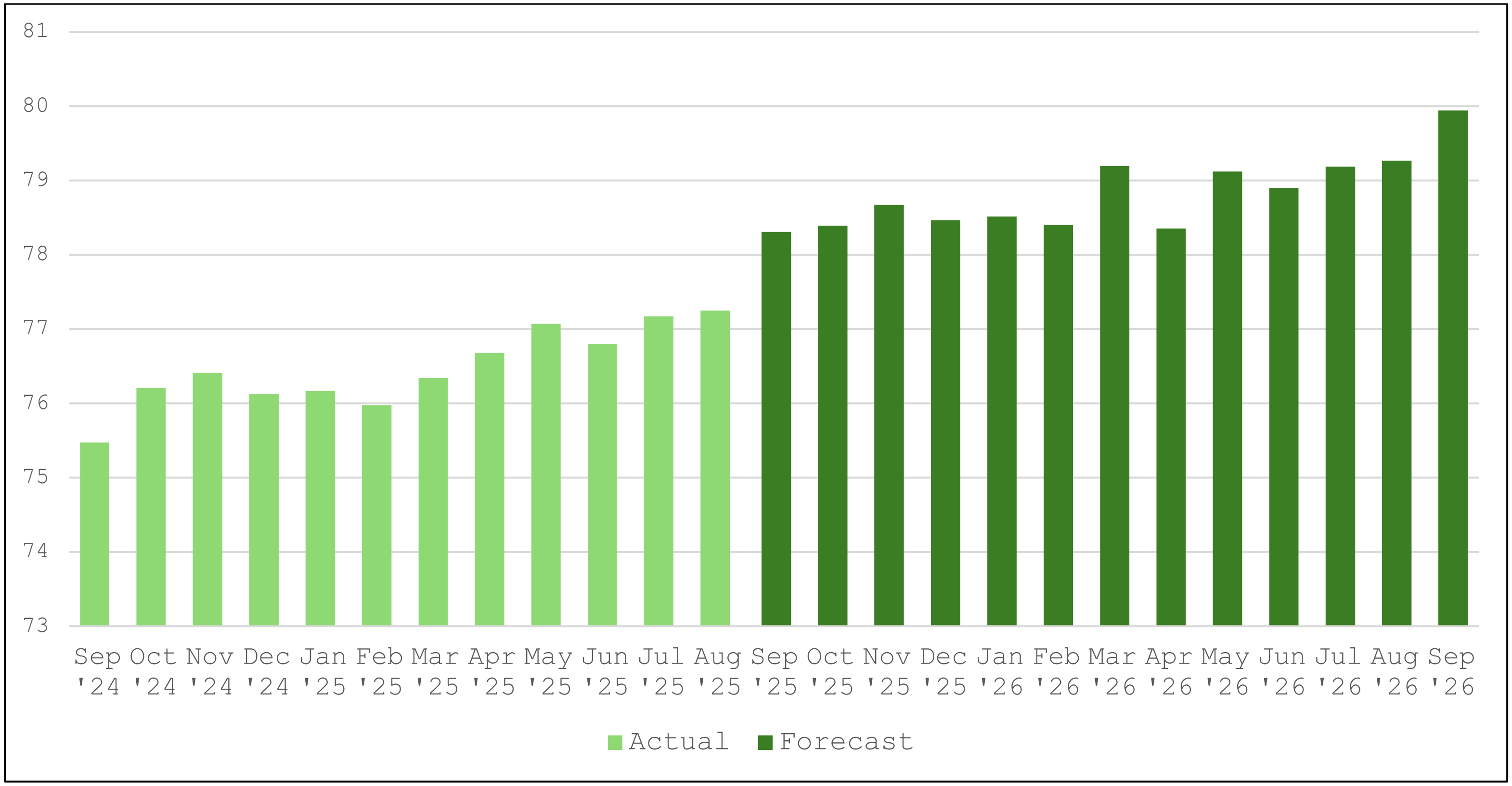


Figure 10. Tourist Visitor Arrivals (in thousands)

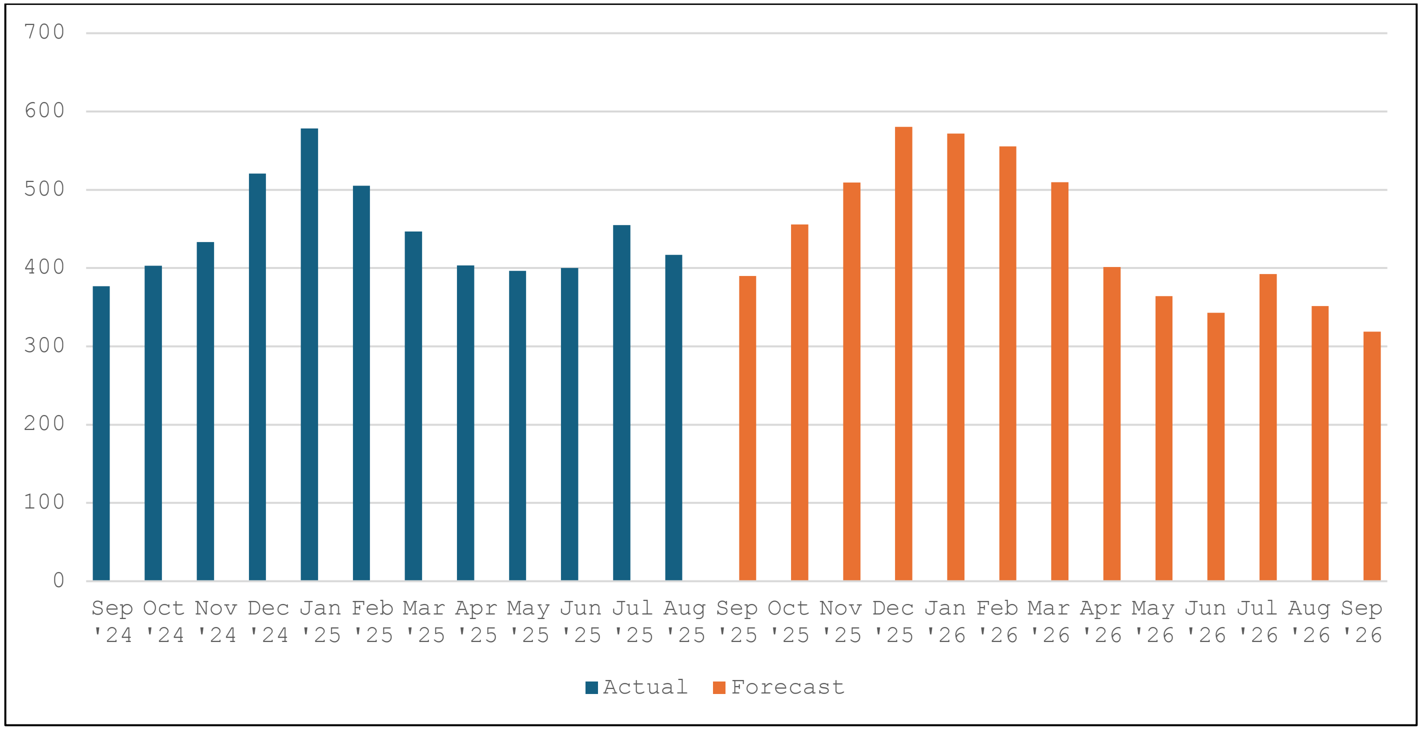


Figure 11. Building Permits (in thousands)