



DLSU REPORT OF THE PHILIPPINE ECONOMY

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Lethargic growth

On 7 November 2025, the Philippine Statistics Authority (PSA) announced that the Philippine economy grew by 4% in the third quarter of 2025, significantly below the 5.2% growth recorded during the same period in 2024. This figure aligns with last month's forecast for Q3 growth, which dipped toward the 4% mark. Our forecast further shows that growth will jump to 5.1% in Q4 2025, before closing at 5% in 2025, which is considerably lower than the recently "re-revised" government target of 5.5-6.5%. Our model predicts that the government will continue to miss its targets over the next two years as economic expansion moderates to about 5-6% in 2026 (5.6%) and in 2027 (5.8%).

**Table 1: Year-on-Year Growth Rates (%)
Actual (2024-2025 Q3) and Forecasts (2025 Q4-2027)**

	2024 ^a	2025Q1 ^a	2025Q2 ^a	2025Q3 ^a	2025Q4	2025	2026	2027
GDP	5.7	5.4	5.5	4.0	5.1	5.0	5.6	5.8
Private Consumption	4.9	5.3	5.3	4.1	1.7	4.1	6.3	5.8
Government Expenditure	7.3	18.7	8.7	5.8	7.3	9.7	11.4	11.4
Gross Capital Formation	6.3	6.5	3.1	0.1	-2.1	1.9	1.6	2.1
Exports	3.3	7.1	4.5	7.0	6.8	6.0	5.3	5.0
Imports	4.2	10.3	2.9	2.6	2.1	4.4	6.7	5.6
Agriculture	-1.5	2.2	7.0	2.8	3.2	3.7	6.8	6.1
Industry	5.6	4.6	2.1	0.7	2.4	2.6	2.9	2.3
Service	6.7	6.2	6.9	5.5	6.6	6.3	6.6	7.3

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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Despite numerous rate cuts by the Bangko Sentral ng Pilipinas (BSP) and relatively stable inflation throughout the year, private consumption growth continues to falter, recording 4.1% growth in Q3 2025. This rate is lower than that in the same quarter of 2024, 5.2%. Alongside the recent typhoons that hit the country, the disclosure of multiple corruption scandals has taken the country by storm, fuelling economic pessimism and taming consumer demand. Our forecast anticipates a further deceleration in Q4 2025 to 1.7%. Although projected to settle at 4.1% for 2025, we remain optimistic that private consumption will bounce back at 6.3% in 2026 and 5.8% in 2027.

Relative to the previous quarter, government expenditure moderated to 5.8%. Recent investigations on flood control projects have led to many government projects being halted and/or not approved. Our forecast shows a slight increase in public spending in Q4 2025, at 7.3%, before closing at 9.7% for 2025. We also predict fiscal expenditures to rise to 11.4% in the next two years. However, this outlook may change depending on the trajectory of the ongoing corruption investigations, the resolution of which remains unclear.

Gross fixed capital formation continues to exhibit significant weakness, consistent with our previous forecasts. After a strong 6.3% in 2024, investment continues to decelerate, even reaching a near-zero growth of 0.1% in Q3 2025. We foresee a contraction in Q4 2025 (-2.1%), further slowing down capital formation, closing at 1.9% for 2025. This sluggish growth is projected to persist in 2026 (1.9%) and in 2027 (2.1%). As investment remains flat, the country's productive capacity will suffer, negatively impacting the manufacturing sector. According to PSA, output growth of the industrial sector in Q3 2025 was 0.7%, a sharp decline from 5% in the same period last year. Though a slight uptick is predicted in Q4 2025 at 2.4% (possibly due to increased holiday-related production), our forecast illustrates a muted growth in the sector's output at 2.6% in 2025. Industrial output is also predicted to stagnate within 2% over the next two years (2.9% in 2026 and 2.3% in 2027).

Surprisingly, the external sector shows some promise in propelling economic growth amid global trade uncertainties. The Philippines recorded a 7% increase in export growth in Q3 2025, and is expected to maintain momentum in Q4 2025 at 6.8%. Export growth is forecasted to stabilise at 6% this year. Import growth, on the other hand, grew minimally in Q3 2025, 2.6%. We anticipate that in Q4 2025, imports will grow by 2.1%, before closing at 4.4% for 2025. Actual and projected figures also suggest that the recent depreciation of the Philippine peso, reaching the 59-peso mark, may narrow the country's trade deficit. However, we forecast these gains to be short-lived as export growth in 2026 (5.3%) and in 2027 (5%) will be offset by a faster import growth in the next two years (6.7% in 2026 and 5.6% in 2027).

On the supply side, agricultural sector output increased by 2.3% in Q3 2025. Though slower than in the previous quarter, this is a notable change from last year's contraction of 2.7%. We forecast a slight increase by 3.2% in Q4, before settling at 3.7% for the year. A strong rebound is anticipated in 2026 at 6.8% and in 2027 at 6.1%. Despite being the most consistent driver of economic expansion, services sector growth moderated to 5.5% in Q3 2025, down from 6.3% in Q3 2024. Our estimates show better performance for Q4 2025 at 6.6%, settling at 6.3% for 2025. Services will continue to drive growth from the supply side, expanding by 6.6% in 2026 and 7.3% in 2027.

The takeaway

The considerable dip in the growth of the Philippine economy in the third quarter was not surprising. The confidence of consumers and producers has been severely battered by grave corruption scandals with investigations showing no clear resolution. The public believes these queries may lead nowhere, as no

government officials or private contractors have been held accountable yet. Many institutions are also revising (downgrading) their growth forecasts to below 5% signalling economic pessimism.

The Philippine peso has depreciated to an all-time low again, which may boost exports and remittances, especially as the Christmas season approaches. However, we do not expect growth to significantly pick up in the last quarter of the year. In fact, the economy would need to expand by at least 7% in Q4 2025 just to achieve the lower band of the government's target—a feat that seems close to impossible given current political and economic climate.

Recent central bank rate cuts will likely have little impact. An expansionary monetary policy is not an antidote to an ailing economy beset by a lack of confidence. Lower interest rates will not boost consumption and investment activities in a country plagued by scandals that feature connivance between politicians and their private funders. The government may reason out that these corruption trials are conducted in order to restore economic confidence. However, the only way to reduce such pessimism is to assure the public that culprits will eventually pay for their sins—and we are not seeing it happening yet.

Even so, we choose to remain optimistic. These trials will not drag on indefinitely. The economy will eventually recover, though without illusions that growth will hit the 7-8% mark.

We firmly adhere to the standard development triad as pillars of long-term economic growth: (1) political stability, (2) an economy with the manufacturing sector in the centre stage (yes, it is the structure of the economy that drives growth), and (3) a more active fiscal policy not tainted with corruption. So far, none (if not extremely little) of these elements are apparent in the Philippine economy.

As the government continues to miss its targets, the recent dip in our economic performance must serve as a wake-up call for our policymakers. The government must ensure that something concrete will come out of these investigations. Spending on basic infrastructure that facilitate more economic activities must resume at the soonest. Reforms should already focus on supporting the manufacturing industry to increase their productivity and competitiveness.

Unless these important foundations are put into place, our economy will grow—but definitely not at the pace we desire.

Inflation

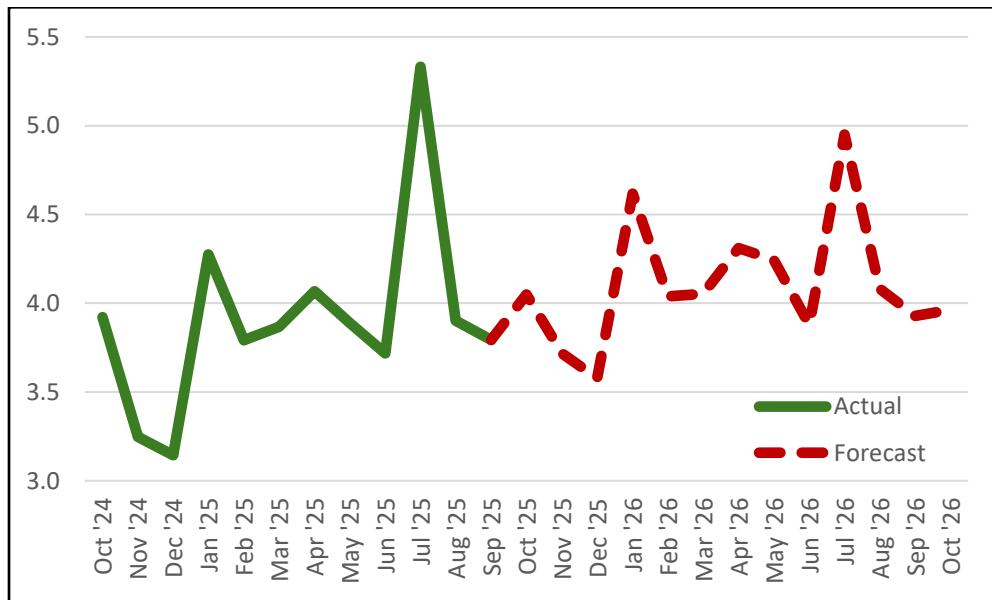
Figure 1. Inflation Rate (%; CPI 2018 = 100)



Inflation in October 2025 slowed down to 1.66% compared to 1.74% in the previous month. We forecast the average inflation rate to be 1.68% for 2025.

Employment

Figure 2. Unemployment Rate (%)

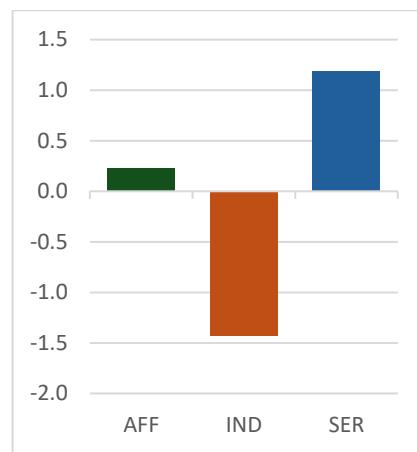


In September 2025, the unemployment rate went down to 3.79%, lower than the previous month's unemployment rate of 3.90%. We forecast the unemployment rate for the end of the year to be 3.58%, averaging at 3.99% for 2025.

*Figure 3. September 2025 Change in Employment
(%, y-o-y)*



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



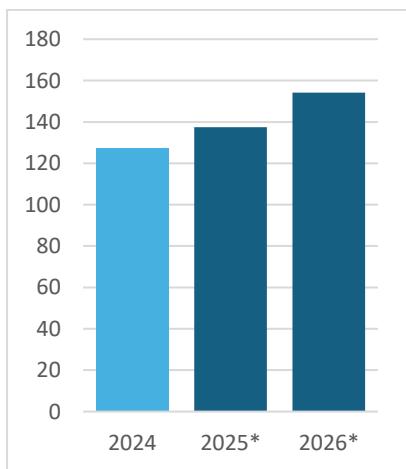
*October-December 2025 are forecast values

Employment in the Agriculture, Fisheries, and Forestry (AFF) sector and the Industry (IND) sector grew by 4.53% and 2.08% respectively in September 2025 over the same month in 2024. Employment in the Services sector (SER) shrank by 2.87% over the same period.

We forecast that the 2025 average employment in IND will decrease by 1.43% from last year, while the average employment in AFF and SER will grow by 0.23% and 1.19% respectively.

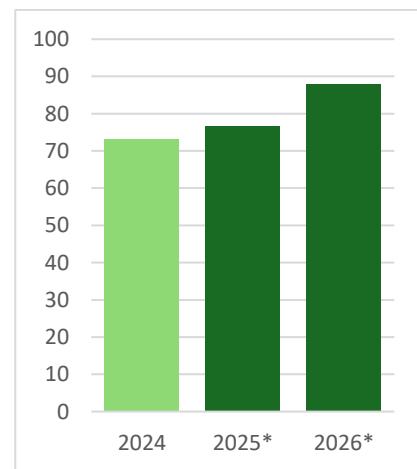
Trade

*Figure 5. Total Annual Merchandise Imports
(FOB, billions USD)*



*October-December 2025 are forecast values

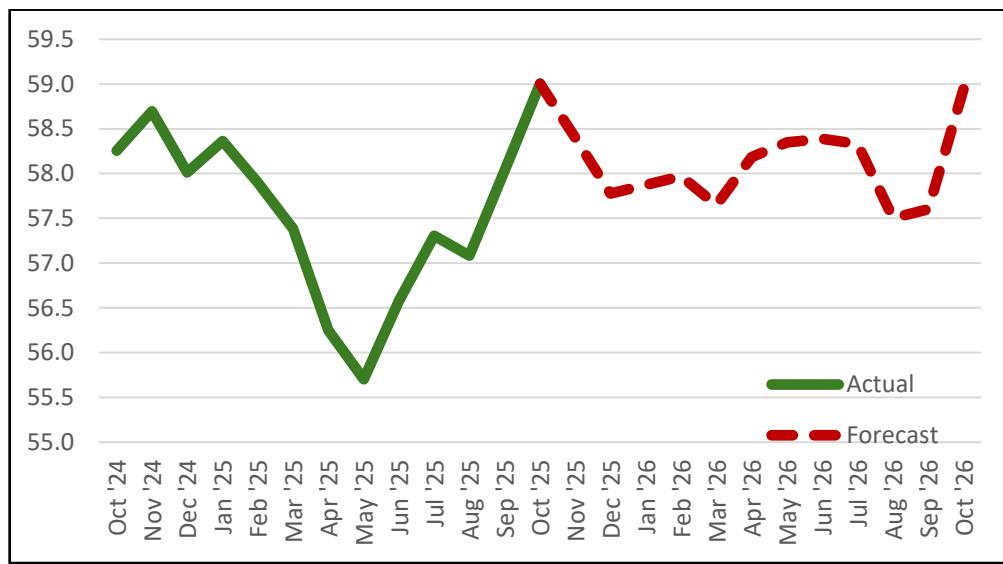
*Figure 6. Total Annual Merchandise Exports
(FOB, billions USD)*



*October-December 2025 are forecast values

We forecast the total merchandise imports for 2025 to grow to \$137.48bn, about 7.80% higher than 2024. Total merchandise exports are also forecasted to grow to \$76.70bn in 2025, 4.68% higher than the previous year.

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



The PHP/USD exchange rate closed out at 59.003 in October 2025. We forecast the year-end exchange rate to be 57.81 for 2025.

Forecast Graphs of Selected Indicators:

Figure 8. Employment by Sector (in millions of people)

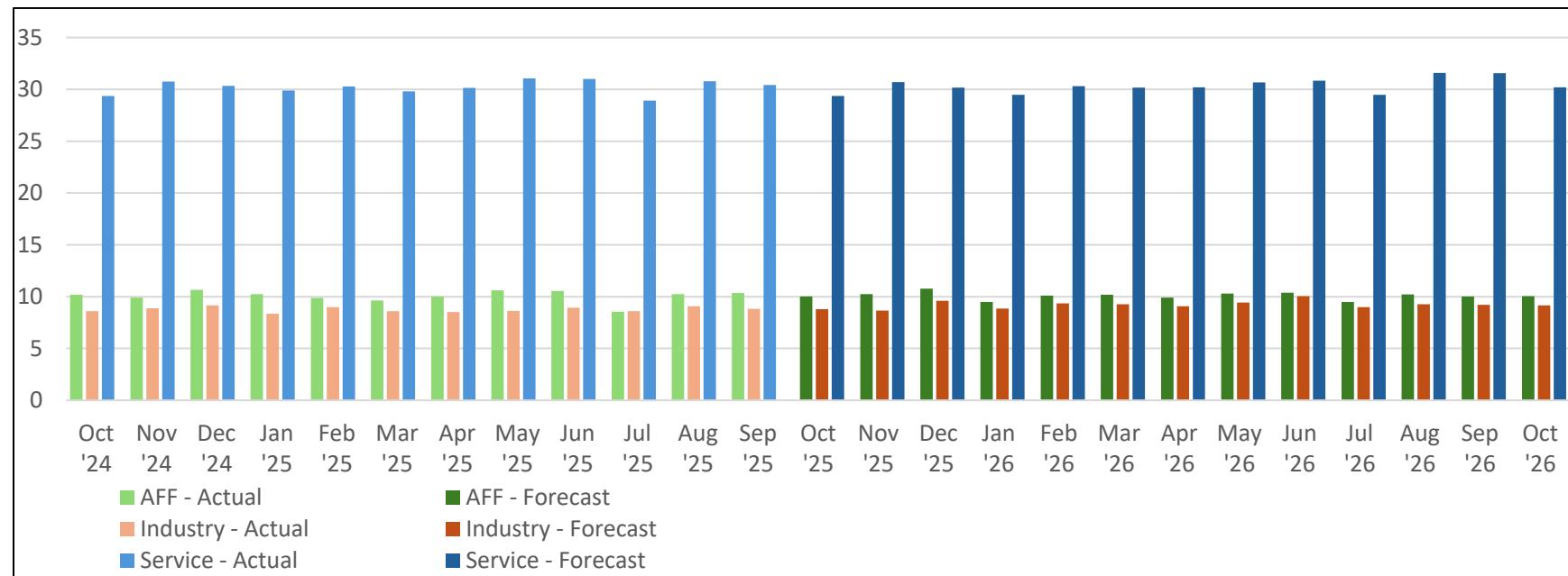


Figure 9. Total Building Permits

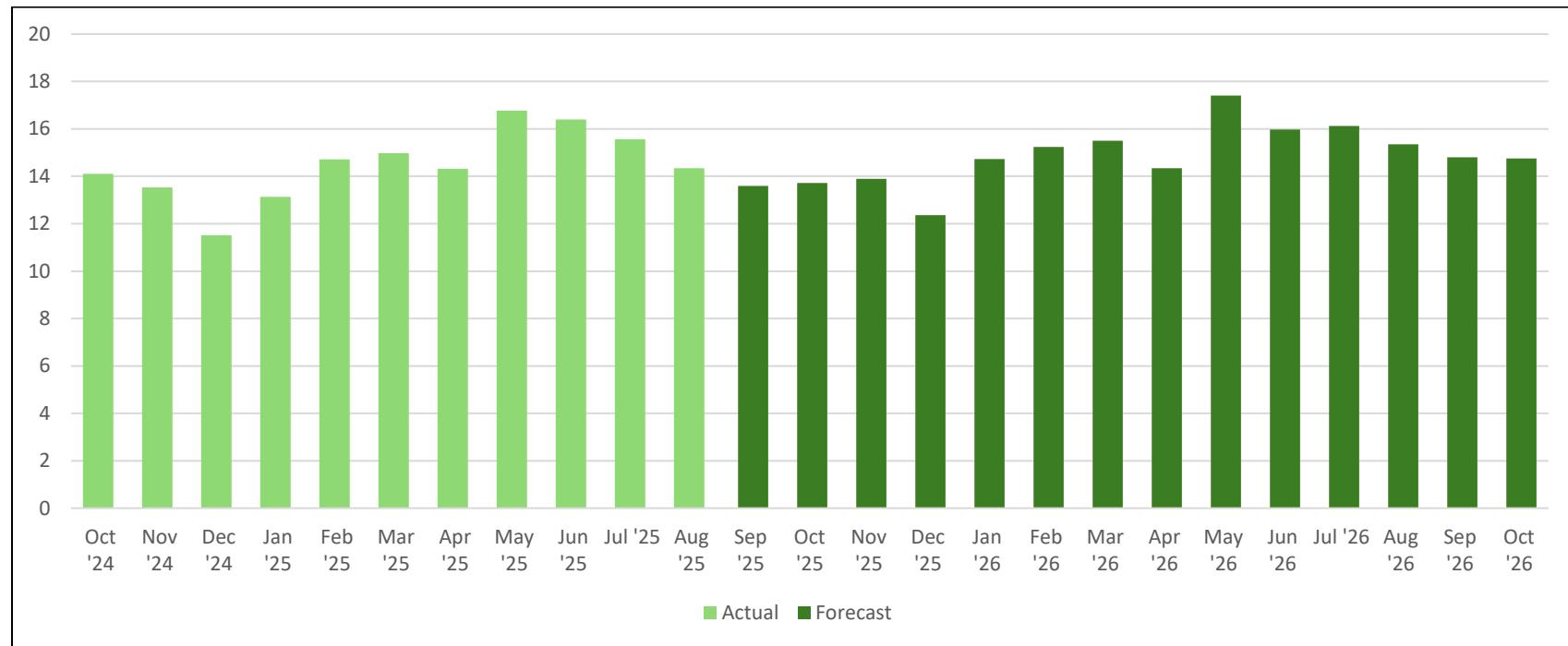


Figure 10. Tourist Visitor Arrivals (in thousands)

