DLSU REPORT OF THE PHILIPPINE ECONOMY
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Decelerating economic expansion

Our December 2025 forecast points to emerging signs of short-term deceleration in the Philippine economy. Following a notable slowdown in the third quarter when growth eased to 4%, the economy is projected to post only a mild recovery to 4.4% in the final quarter of 2025. This modest uptick does little to offset the downward trend over the year. As a result, as seen in Table 1, we now expect annual Real GDP growth to soften to 4.8% in 2025—well below the 5.7% recorded in 2024 and lower than our earlier forecast of 5% for 2025.

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	4.4	4.8	4.8	5.9
Private Consumption	4.9	5.3	5.3	4.1	2.5	4.2	4.5	3.9
Government Expenditure	7.3	18.7	8.7	5.8	6.9	9.6	14.5	12.4
Gross Fixed Capital Formation	6.0	6.3	5.1	-1.3	-2.2	1.9	-3.1	-2.4
Exports	3.3	7.1	4.5	7.0	3.3	5.1	10.4	11.9
Imports	4.2	10.3	2.9	2.6	2.8	4.6	6.5	5.0
Agriculture	-1.5	2.2	7.0	2.8	3.3	3.7	3.2	2.4
Industry	5.6	4.6	2.1	0.7	1.9	2.4	3.6	4.0
Service	6.7	6.2	6.9	5.5	5.7	6.1	5.6	7.1

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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These projections are consistent with a pattern repeatedly highlighted in our previous reports: the Philippines remains on course to miss its re-revised growth targets for 2025. In addition to weakened confidence and lower demand, the uncertainty stemming from governance concerns and corruption scandals continues to dampen private spending and investment decisions.

Our projections are also broadly aligned with those of other forecasters. Based on the Asia Pacific Consensus Forecasts—drawing on projections from other nineteen institutions covering key Philippine macroeconomic indicators—there is a steady downward revision in the mean growth forecasts, from 5.5% in October to 5.2% in November, and to 4.8% in December.

Looking ahead, the medium-term outlook remains uncertain. Growth is expected to stagnate at 4.8% in 2026 before regaining momentum in 2027, with output expanding by 5.9%—mainly due to higher government spending and export growth. Even with this projected rebound, the Philippine economy remains off track in meeting its growth ambitions over the next two years.

Private consumption growth has continued to lose momentum, particularly toward late 2025. Consumer expenditure is forecast to weaken sharply at 2.5% in Q4 2025, diverging from the typical surge associated with holiday-related spending. Although inflation has remained within the central bank's target band, recent data from the Philippine Statistics Authority (PSA) show a rise in unemployment (5%) and underemployment (12%) in October 2025. Against this backdrop, we predict that consumer spending growth will eventually settle at 4.2% in 2025. Given the labor market's limited capacity to absorb workers and heightened political uncertainty, consumer demand is projected to remain subdued over the next two years (expanding by 4.5% in 2026 and slowing further to 3.9% in 2027).

Public sector spending is projected to rebound to 6.9% growth in Q4 2025, following a slowdown to 5.8% in the previous quarter. Amid delays in government disbursements linked to corruption probes involving state projects, annual public spending growth remains elevated at 9.6% in 2025, mainly due to a strong first quarter spending. Our forecasts suggest that fiscal expenditures will rebound to double-digit growth over the next two years (14.5% in 2026 and 12.4% in 2027). Deferred projects and major infrastructure spending would eventually have to be resumed and carried forward. This acceleration would also likely depend on the ongoing corruption investigations reaching a credible resolution—not merely through the punishment of those culpable, but through institutional mechanisms that ensure accountability and restore public trust.

Gross fixed capital formation continues to be the Philippine economy's major roadblock to achieving a faster and more sustained growth. Following a contraction of 1.3% in Q3 2025, investment activity is projected to decline further by 2.2% before settling at modest growth of 1.9% for the year as a whole. The medium-term outlook remains bearish, with further contractions predicted at 3.1% in 2026 and 2.4% in 2027.

The external sector remains relatively resilient despite uncertainties in global trade. Even with an expected deceleration in export growth to 3.3% in Q4 2025, our forecasts show that exports will expand by 5.1% for the year, supported by strong performance in the first and third quarters. A slight uptick in import growth is also projected in the last quarter, at 2.8%, bringing average import growth to 4.6% in 2025. The depreciation of the Philippine peso may even help narrow the country's trade deficit as export growth (10.4% in 2026 and 11.9% in 2027) is anticipated to outpace import growth over the next two years (6.5% in 2026 and 5% in 2027).

On the supply side, agriculture is expected to stage a recovery in 2025, with a slight growth of 3.3% in Q4 2025 before closing the year at 3.7%. Moderate growth is projected to be sustained in 2026 (3.7%), followed by a slight dip in 2027 (2.4%). Industrial output is also forecast to register a modest recovery, with growth rising to 1.9% in Q4 2025, resulting in an average growth of 2.4% in 2025. Faster industrial growth is expected to be continue into the medium term, reaching 3.6% in 2026 and 4% in 2027. The services sector will also grow much faster at 5.7% in Q4 2025. Annual performance shows stability and resilience at 6.1% in 2025, with a slight moderation expected in 2026 at 5.6% before rebounding to 7.1% in 2027.

Recap of Forecasts in the Short-Term

All in all, our recent forecasts point to a gradual but unmistakable deterioration in the Philippines' economic performance throughout the year. The country's growth outlook remains dampened and primarily weighed down by deep-rooted governance issues. Over the past months, public frustration escalated significantly, with many Filipinos openly expressing discontent through a series of small and large public demonstrations across many parts of the country. Yet despite the scale of public outcry, progress on the investigations has rather been disappointingly slow. As no single politician or private contractor has been put behind bars yet, accountability remains elusive. This collective dissent even permeated into cultural and social spaces (such as major collegiate sports leagues) in which athletes and spectators alike chant for justice and transparency. And the longer these issues remain unresolved, the more persistent economic pessimism is likely to become.

Our forecasts suggest that this lack of economic confidence will not simply linger into the final quarter of 2025 but will likely persist well into the following year. The Bangko Sentral ng Pilipinas (BSP) clearly recognizes this risk, maintaining an expansionary stance by cutting the policy rate by a further 25 basis points on December 11 to 4.5%. However, we remain steadfast with our assessment: the Philippine economy is unlikely to miraculously pull up a 7% growth in the fourth quarter despite surges in holiday-related expenditures. In fact, even BSP Governor Eli Remolona himself admits that monetary policy can only do so much to counteract the drag caused by the recent political turmoil. Indeed, the economic fallout from corruption scandals (through weakened confidence, investment hesitation, and governance instability), cannot be underestimated.

The Lower Forecast
Our GDP growth forecast this month (4.8%) is markedly lower than any of our forecasts this 2025. This is because of the significantly lower forecasts for Gross Fixed Capital Formation, as shown in Table 2.

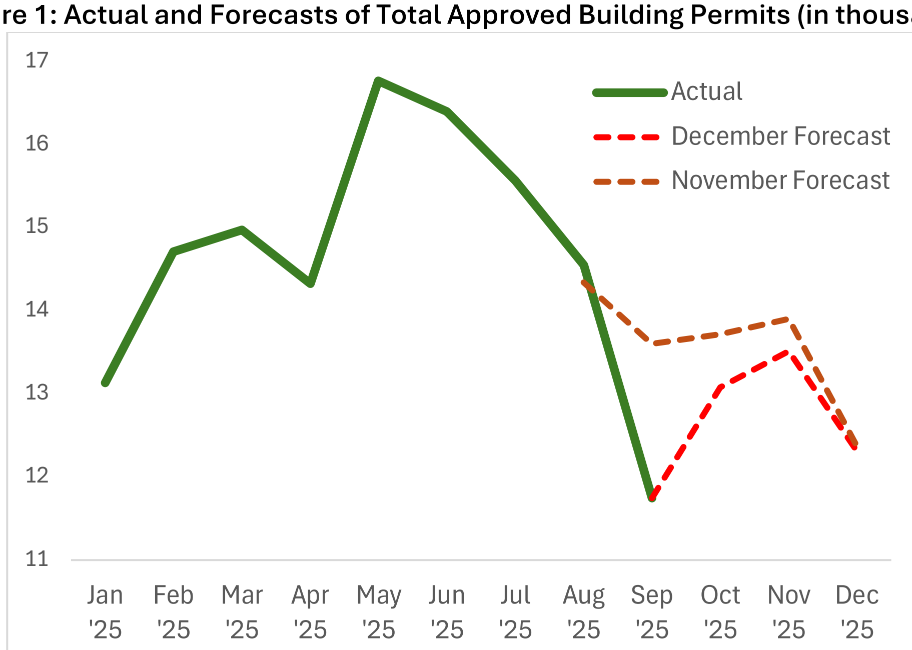
Table 2. Change in Year-On-Year Forecasted Growth Rates (%, December Forecast vs. November Forecast)

	2025Q4	2025	2026Q1	2026Q2	2026Q3	2026Q4	2026
GDP	-1.3	-0.5	-2.0	-0.7	0.1	0.7	-0.4
Private Consumption	-1.5	-0.6	-0.5	-2.1	-2.1	-1.5	-1.6
Government Expenditure	-5.0	-4.7	-0.5	2.2	2.8	1.7	1.5
Gross Fixed Capital Formation	**-8.3**	**-4.3**	**-8.0**	**-8.3**	**-7.7**	**-7.2**	**-7.8**
Exports	3.7	2.3	5.9	9.4	12.4	13.7	10.4
Imports	-1.1	-1.2	0.7	0.5	0.4	-0.1	0.4

Source: DLSU High-Frequency Model of the Philippine Economy

The lower forecasts for gross fixed capital formation are picking up the decline in the total number of approved building permits (it is lower than expected), as shown in Figure 1. For September 2025, PSA reported that there were 11,476 approved building permits. In our November forecast, we expected that there would be 13,600. To put it simply, there were 1,854 less approved building permits than what was expected by the model:

Figure 1: Actual and Forecasts of Total Approved Building Permits (in thousands)



It is important to note that the number of building permits has been declining since June of this year, and at a faster pace than expected. We suspect such declines stem from government officials being more wary of haphazardly signing off infrastructure projects, given the investigations on the flood control scandals that began around August of this year. Should such trends continue, public underinvestment, a problem this country is too familiar with, could be exacerbated.

2025 in Review and Outlook for 2026

Economic growth in 2025 consistently undershot official ambitions. Across successive forecasts, full-year GDP growth converged toward around 5 percent—with estimates gradually revised downwards from the more-optimistic mid-5% range earlier in the year to about 5.0% by November – well below the government's re-revised 5.5-6.5 target band. The DLSU High-Frequency Model was projecting Q3 growth to be around 4.6%. Actual growth in Q3 2025 turned out to be 4%, which caused 2025 growth forecasts to sharply decline across many institutions.

Throughout the year, gross fixed capital formation decelerated steadily, pulling down industrial output and limiting productivity gains. Despite stable inflation and multiple rate cuts by the Bangko Sentral ng Pilipinas, private investment failed to respond meaningfully, emphasizing the limited effectiveness of monetary policy in an environment marked by global uncertainty, governance concerns, weak business confidence, and low productivity.

On the external front, US tariff policy and trade uncertainty featured quite prominently. In some of our earlier reports, as well as in this policy brief, we cautioned against overstating both the risks and opportunities associated with the announced reciprocal tariffs. Philippine exports have shown some resilience (with possible effects from frontloading ahead of the tariff changes), while the new tariffs mainly increased uncertainty and disrupted trade planning. Export growth is projected to exceed import growth in the near term, which might be partly due to the depreciation of the peso, but without the accompanying structural transformation, this is unlikely to translate into a sustained expansion of export capacity.

Fiscal policy and public spending remained the key short-term support to growth, yet risks to budget execution and the ongoing corruption investigations increasingly weighed on confidence. Public spending was quite strong early in the year but slowed as projects were delayed or suspended. Throughout the year, we repeatedly emphasized the importance of understanding the government's finances and sectoral balances in our reports. A recent note by Felipe, Largoza, and Sauler (2025) also discusses the importance of understanding the monetary reality of a sovereign government. The government should realize that it has far greater fiscal capacity to provide essential public goods than is commonly assumed. And that purposeful economic planning—focused on productivity, industrial policy, and export competitiveness—offers a genuine path to development.

Ultimately, 2025 reaffirmed what we have long argued (e.g. in this Letter to the Economic Team and in this discussion of the Fiscal Deficit and National Debt): the Philippine economy's main growth hurdle is structural transformation (or, more precisely, the lack thereof). Services continue to drive expansion and agriculture has rebounded. However, industry and, in particular, manufacturing, remains weak. Productivity growth in the last two decades has largely come from within the sectors themselves, rather than by the reallocation of labor to higher-productivity activities. Without a credible industrialization strategy and a more realistic approach to managing government finances, the economy will continue to grow but if there is anything 2025 has taught us, it is this: this is as far as the economy will go and it will simply not grow at the pace implied by government targets or development aspirations. Without serious and real changes, the Philippine economy risks languishing in a cycle of underperformance.

Given the structure of the economy, the economy's potential growth is simply not above 6% and it is important for the government to acknowledge this reality. When the Philippine Development Plan 2023-2028 was first released, growth targets were set at 6.0 to 7.0% for 2023 and 6.5 to 8.0% from 2024 to 2028. The 2023 target was not achieved. In 2024, the growth targets were revised downward, yet the revised target was again missed, leading to a further downward revision in 2025—which we are also set to miss. It has taken 3 years for the government to admit that the growth target will not be attained. The Philippine economy cannot afford this prolonged lack of realism in economic leadership. Throughout this period, the government continued to emphasize that the Philippines was growing faster than its neighbors, without acknowledging that these countries are substantially richer economies. Meanwhile, we have consistently maintained our position that sustaining growth of 6% (let alone 7%) would be very difficult given existing structural constraints. The Philippine economy deserves leadership grounded in realism instead of an optimism driven by unattainable targets meant to provide a favorable economic narrative. The outcome of this approach? Growth targets have not been met three years in a row.

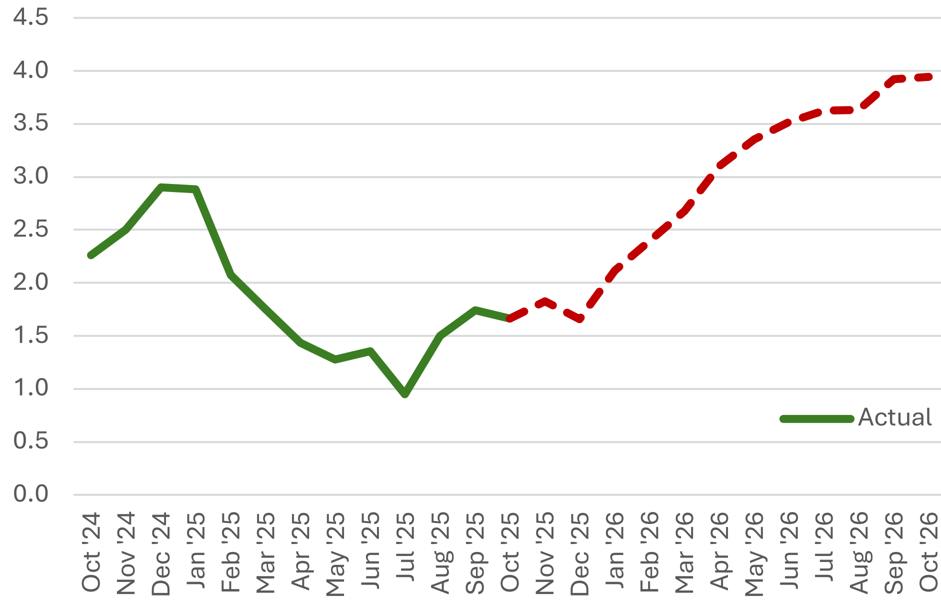
As 2025 draws to a close, the government faces a crucial moment for introspection. Beyond reinstating political stability, Philippine policymakers must seriously rethink the economy's industrial policies to address persistently sluggish manufacturing growth and weak investment activity. Equally important in this endeavor is the need for a more strategic fiscal spending (along with a better understanding of its finances), one with a clear focus on industries with strong potential for productivity gains and long-term competitiveness.

For 2026, we would like to remain (cautiously) optimistic, but we also stand firm: without a clearer understanding of the monetary and economic realities of the Philippines, the country will most likely experience MOTS (More of the Same). These key themes are discussed thoroughly in an upcoming book, "The Philippine Economy Toward 2050: Economic Transformation and Monetary Reality" by Felipe, et al., which will be released in 2026.

Inflation

Consumer prices rose 1.66% in October 2025 (see Figure 2), which is slightly lower than last month's 1.74%. We expect the average inflation rate for 2025 to be at 1.68%.

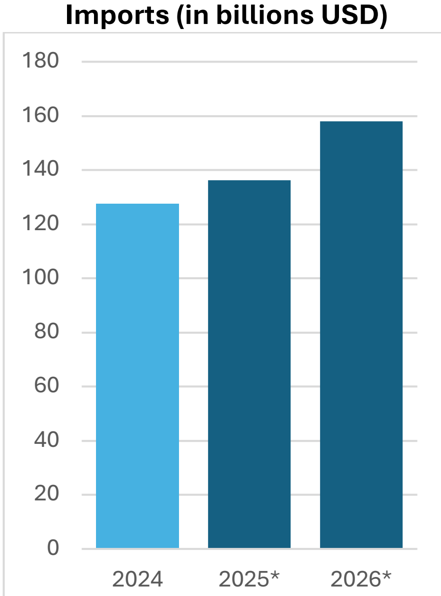
Figure 2. Inflation Rate (%, CPI 2018 = 100)



Trade and Exchange Rate

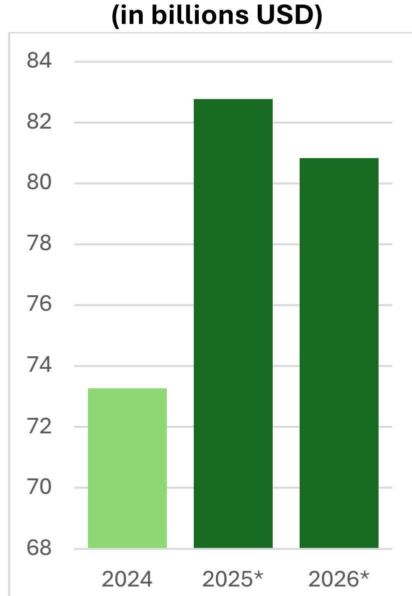
We forecast merchandise exports to grow faster than merchandise imports in 2025, at 12.95% and 6.88% respectively. In 2026, we expect total annual merchandise exports to decrease by 2.33%, while imports are to grow much faster at 15.89%.

Figure 3. Total Annual Merchandise Imports (in billions USD)



*November-December 2025, 2026 are forecast values

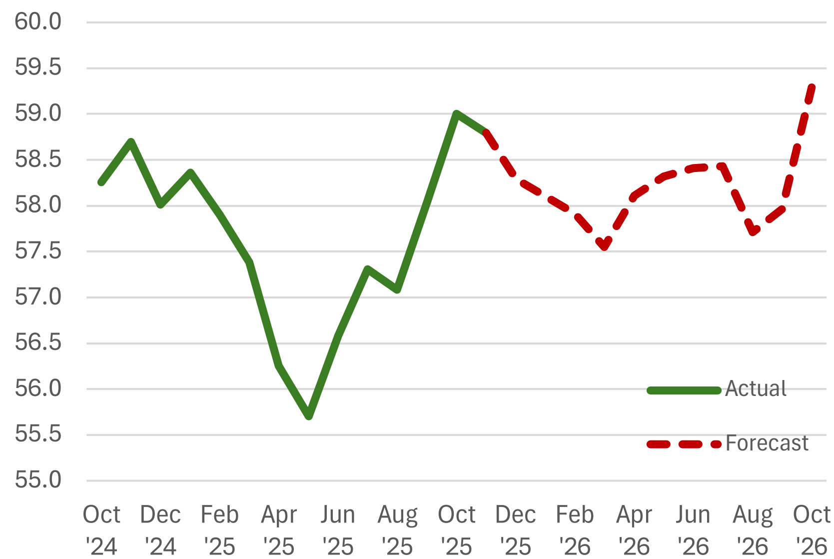
Figure 4. Total Annual Merchandise Exports (in billions USD)



*November-December 2025, 2026 are forecast values

In November 2025, the PHP/USD exchange rate closed at 58.792 (see Figure 5), lower than last month's 59.003, and higher than next month's forecast of 58.293. We expect the exchange rate to average at 57.558 for 2025.

Figure 5. PHP/USD Exchange Rate (end-of-period)



Government Securities

In November 2025, the yields of both 91-day T-bills and 10-year T-bonds went down to 4.85 (Figure 6) and 5.89 (Figure 7) respectively, compared to the previous month's 4.89 and 6.04. We expect the yields of both securities to continue declining for the remainder of the year.

Figure 6. 91-day T-Bill Rates (%)

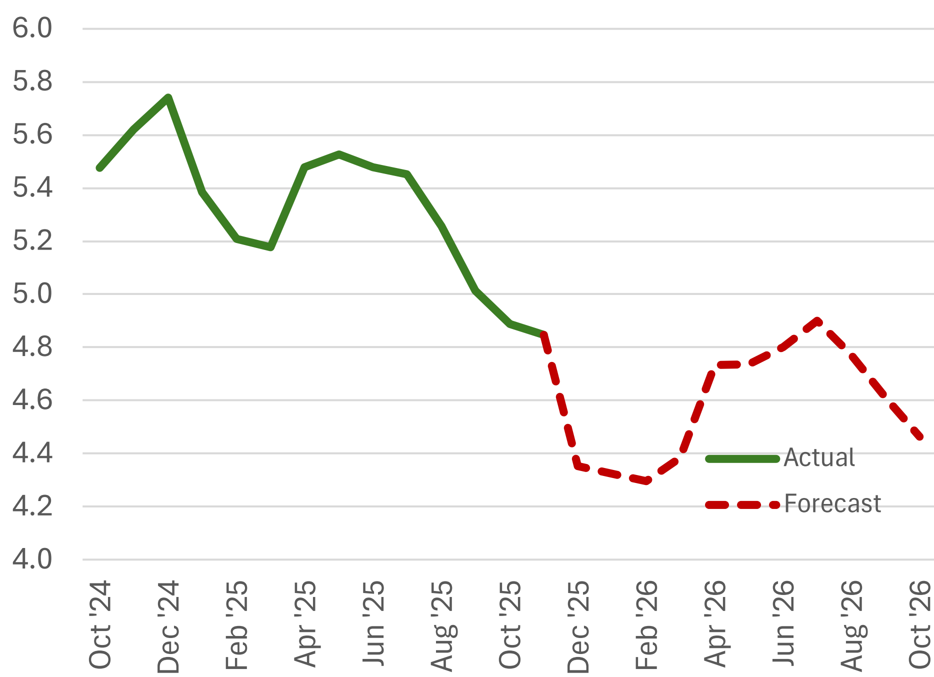


Figure 7. 10-year T-Bond Rates (%)