



DLSU REPORT OF THE PHILIPPINE ECONOMY

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Muted growth in 2025 and 2026

We maintain our December 2025 growth forecast and overall analysis of the Philippine economy, summarized in Table 1. While we anticipate a slight uptick in Q4 2025 to 4.4% (following a 4% dip in the third quarter), full-year growth for 2025 is expected to settle at 4.8%. This deceleration is projected to persist through 2026 with growth further slowing to 4.5%, before a predicted rebound to 5.6% in 2027. Some policymakers have already acknowledged that economic growth may fall closer to the 4.8%-5% range in 2025, and the Interagency Development Budget Coordination Committee has reduced the growth target for 2026 to 5-6%. These pronouncements, alongside our recent forecasts, remain aligned with our prior assessment of the Philippine economy given the current economic and political climate.

**Table 1: Year-on-Year Growth Rates (%)
Actual (2024-2025 Q3) and Forecasts (2025 Q4-2026)**

	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	4.5	5.6
Private Consumption	4.9	5.3	5.3	4.1	2.6	4.3	5.1	4.2
Government Expenditure	7.3	18.7	8.7	5.8	3.5	8.8	11.8	12.9
Gross Fixed Capital	6.3	6.5	3.1	0.1	-3.0	1.7	-4.0	-2.1
Exports	3.3	7.1	4.5	7.0	5.0	5.5	11.0	10.5
Imports	4.2	10.3	2.9	2.6	2.5	4.5	7.5	5.7
Agriculture	-1.5	2.2	7.0	2.8	3.3	3.7	3.0	2.4
Industry	5.6	4.6	2.1	0.7	2.0	2.5	3.6	3.7
Service	6.7	6.2	6.9	5.5	5.7	6.1	5.1	6.8

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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Private consumption growth continues to exhibit a downward trend throughout 2025. We project household spending to expand by 2.6% in the last quarter of 2025, a marginal increase from our previous month's forecast of 2.5%, yet a significant deceleration from the 4.1% growth recorded in the third quarter. Consequently, full-year growth in consumption is expected to stabilize at 4.3% for 2025, lower than the actual 2024 figure (4.9%). Our forecast suggests that subdued consumer sentiment continues to weigh on demand, despite a modest rise in inflation. Given this context, we further anticipate the Bangko Sentral ng Pilipinas (BSP) to retain sufficient policy space to implement further rate cuts in the first quarter of 2026.

Fiscal momentum also appears to be fading. We have revised our Q4 2025 fiscal spending growth forecast to 3.5%, a notable recalibration from our previous estimate of 6.9%. Full-year growth for 2025 is expected to settle at 8.8%. While this marks an acceleration from the 7.3% recorded in 2024, the 2025 figure was largely buoyed by the Q1 2025 surge in government spending at 18.7%. Looking ahead, despite ongoing fiscal consolidation efforts to narrow the budget deficit, we project expenditure growth to recover to 11.8% in 2026 and 12.9% in 2027. All in all, fiscal policy provided less impetus to economic expansion than previously anticipated. Such shortfall is largely attributable to intensified scrutiny of public accounts following political developments late in 2025, dampening the ease of disbursement for government projects.

The external sector continues to exhibit resilience amid recent uncertainties in global trade. Despite slowing to 5% in Q4 2025 (relative to the 7% figure in Q3 2025), full-year forecast for export growth stands at 5.5% in 2025, marking a robust recovery from the 3.3% recorded in 2024. The outlook for 2026 and 2027 is increasingly optimistic, with export expansion projected to accelerate to double digits (11% and 10.5%, respectively). Conversely, our estimates show that import growth will soften to 2.5% in Q4 2025. Although import demand is expected to pick up in 2026 (7.5%) and 2027 (5.7%), such growth remains subdued relative to export growth. Hence, the country's trade deficit is anticipated to narrow, further supported by the continued depreciation of the Philippine peso which has been hitting historic lows in recent months. However, it is uncertain whether such trade gains can sufficiently propel economic expansion, particularly due to the lack of clarity on the structure and implementation of potential US tariffs.

Conversely, investment spending represents the most significant headwind to the current growth outlook. Growth in fixed capital formation has demonstrated a sustained deterioration throughout the year, culminating in a 3% contraction in Q4 2025. As a result, full-year growth for 2025 slowed to 1.7%—a sharp downturn from the 6.3% expansion in 2024. Outlook for the next two years projects a more pronounced decline, with capital formation predicted to contract by 4% in 2026 and 2.1% in 2027. Collectively, our estimates signal that deep-seated risk aversion continues to permeate within the private sector.

On the supply side, the services sector remains the principal engine of economic growth. Having consistently outperformed other sectors, growth in services is estimated at 5.7% in Q4 2025. Full-year growth is predicted to close at a robust 6.1% in 2025, though this marks a moderation compared to the 6.7% recorded in 2024. We also project a deceleration to 5.1% in 2026, but a major recovery is anticipated in 2027 at 6.8%. Agriculture is expected to register a 3.3% growth rate in the final quarter of 2025. The sector's estimated full-year growth of 3.7% in 2025 also exhibits a resurgence from the 1.5% contraction observed in 2024.

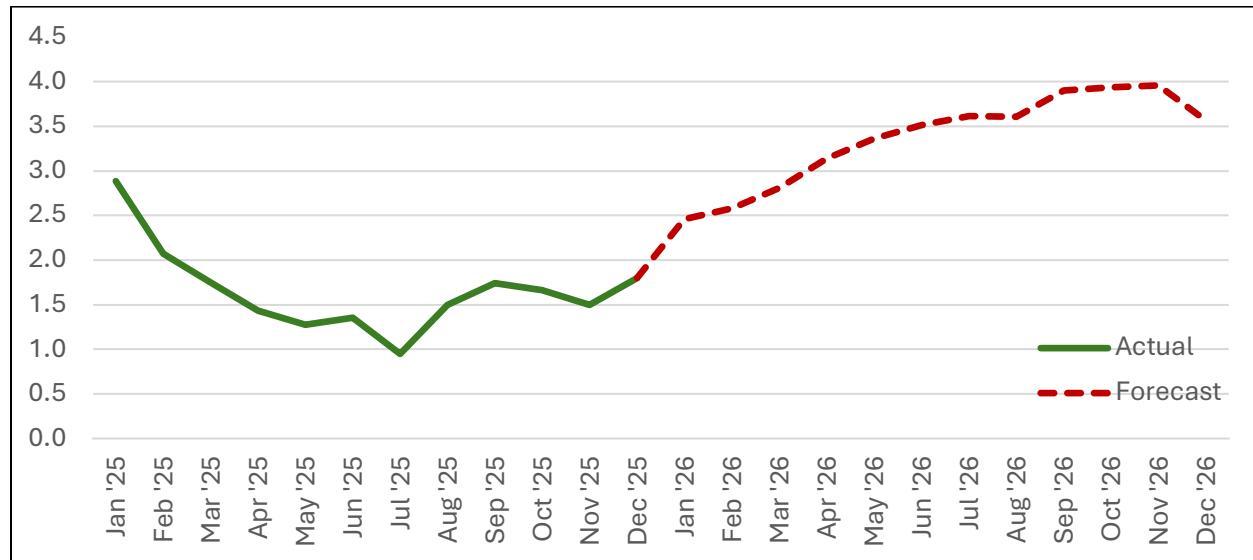
On the other hand, the industrial sector continues to pose a major drag on growth. Despite an uptick to 2% in Q4 2025 (from 0.7% in Q3 2025), the sector's full-year growth is projected to be limited to 2.5% in 2025. Such underperformance mirrors the downward trend in capital formation discussed earlier. Though we project industrial output to accelerate to 3.6% in 2026 and 3.7% in 2027, the sector remains the weakest component on the supply side, mainly constrained by soft investment appetite and economic cautiousness.

In summary, the Philippine economic outlook for 2025 is characterized by a stark divergence between external resilience and domestic retrenchment. While the services sector and export performance somewhat provide a critical buffer against a deeper downturn, overall growth is being constrained by a significant dip in capital formation and moderate private consumption. The domestic private sector is also burdened by caution and governance-related fiscal bottlenecks. Some signs of recovery are apparent by 2027, but the near-term outlook requires a recalibration of expectations and appropriate adjustments in economic policies to address inherent weaknesses in the Philippine economy.

Inflation

Inflation slowed down to 1.5% in November (see Figure 1), before rising in December and ending the year with a rate of 1.8%. Average inflation in 2025 was 1.66%, which is slightly lower than our expectation of 1.68%.

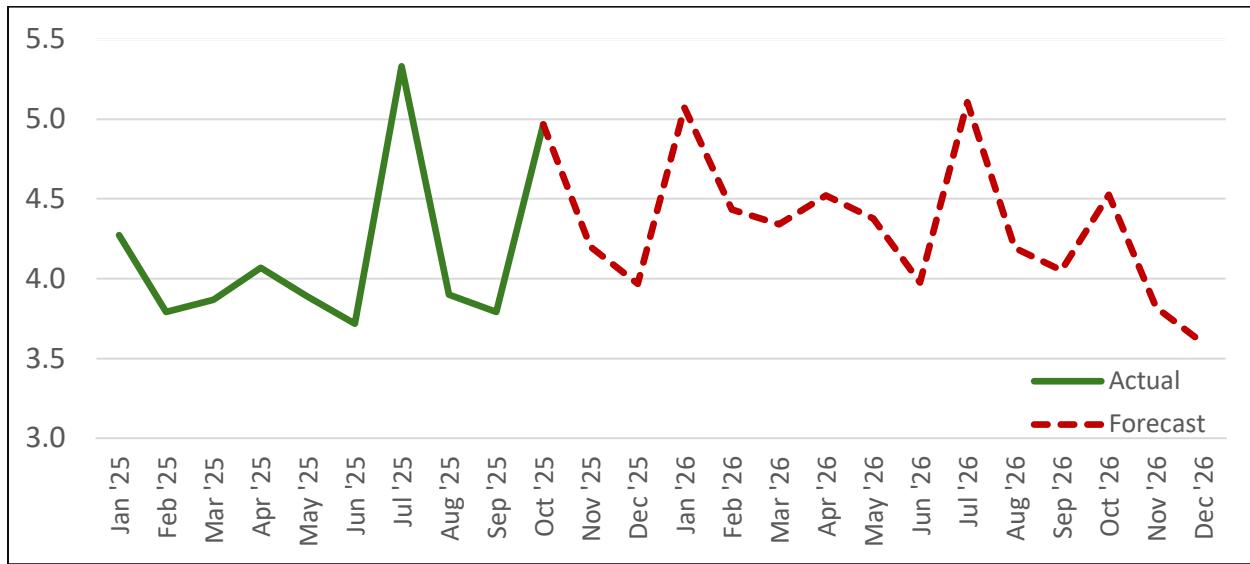
Figure 1. Inflation Rate (%, CPI 2018 = 100)



Employment

Unemployment saw a noticeable increase in October 2025, rising to 4.97% from the previous month's 3.79% (see Figure 2). With this, the average unemployment rate for 2025 is forecasted to be 4.15%.

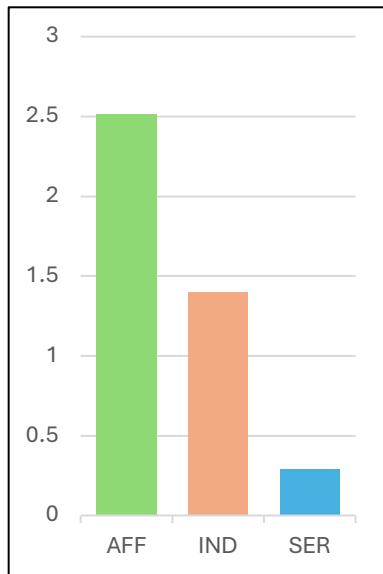
Figure 2. Unemployment Rate (%)



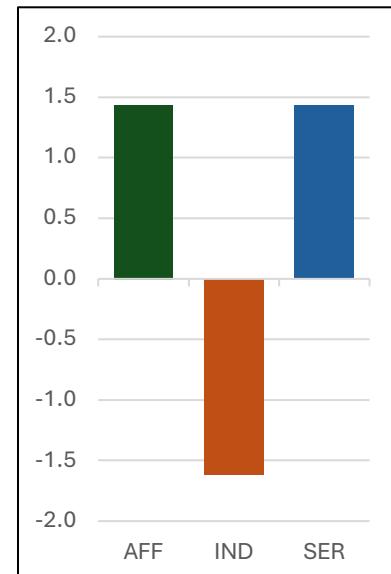
In October 2025, employment in the Agriculture, Fisheries, and Forestry (AFF) sector showed the biggest growth by 2.51% over the same month in the previous year (see Figure 3). This is followed by the Industry (IND) sector with a growth of 1.4% then by the Services (SER) sector by 0.29%.

We forecast that the average employment in the AFF and SER sectors for 2025 will increase by 1.43% from 2024 (see Figure 4). Average employment in the IND sector for 2025, on the other hand, is forecasted to decrease by 1.62% from the previous year.

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



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

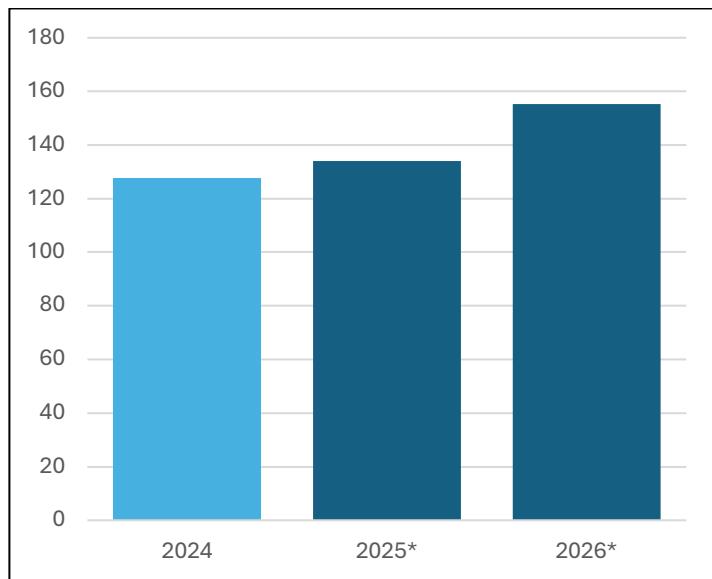


*November-December 2025 are forecast values

Trade and Exchange Rate

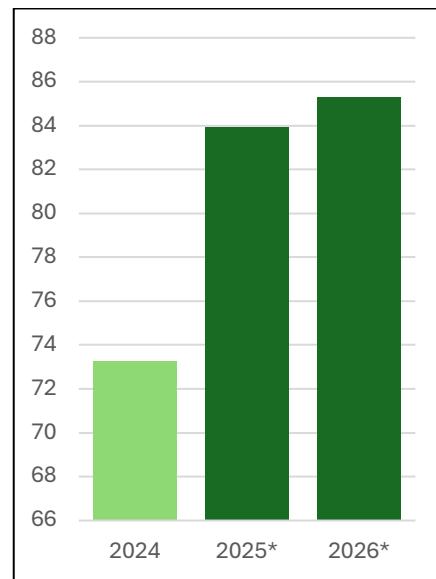
With forecasted December 2025 values, merchandise imports and exports are expected to grow by a total of 5.07% and 14.57% in 2025, respectively (see Figure 5). In 2026, we forecast merchandise imports to increase by 15.9% and exports to increase by 1.59% (see Figure 6).

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



*December 2025, 2026 are forecast values

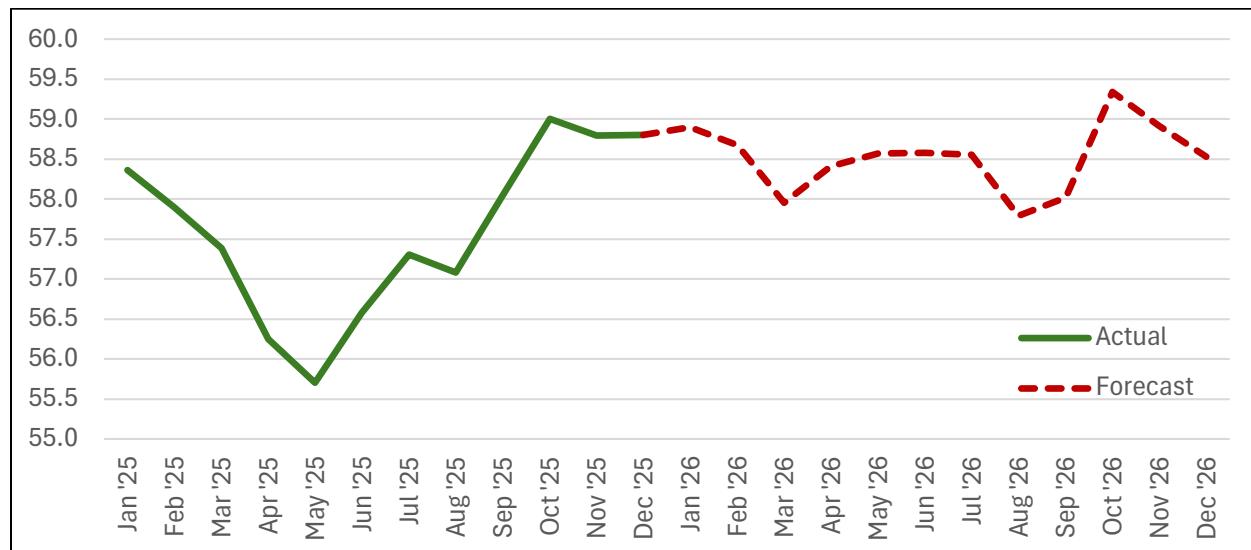
Figure 6. Total Annual Merchandise Exports (in billions USD)



*December 2025, 2026 are forecast values

December 2025 saw a slight increase in the PHP/USD exchange rate, closing at 58.81 compared to the previous month's 58.79 (see Figure 7). We forecast the rate to grow even more slightly in the following month, expecting it to close at 58.9. The average exchange rate for 2025 is 57.6.

Figure 7. PHP/USD Exchange Rate (End-of-Period)



Graphs of Selected Indicators:

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

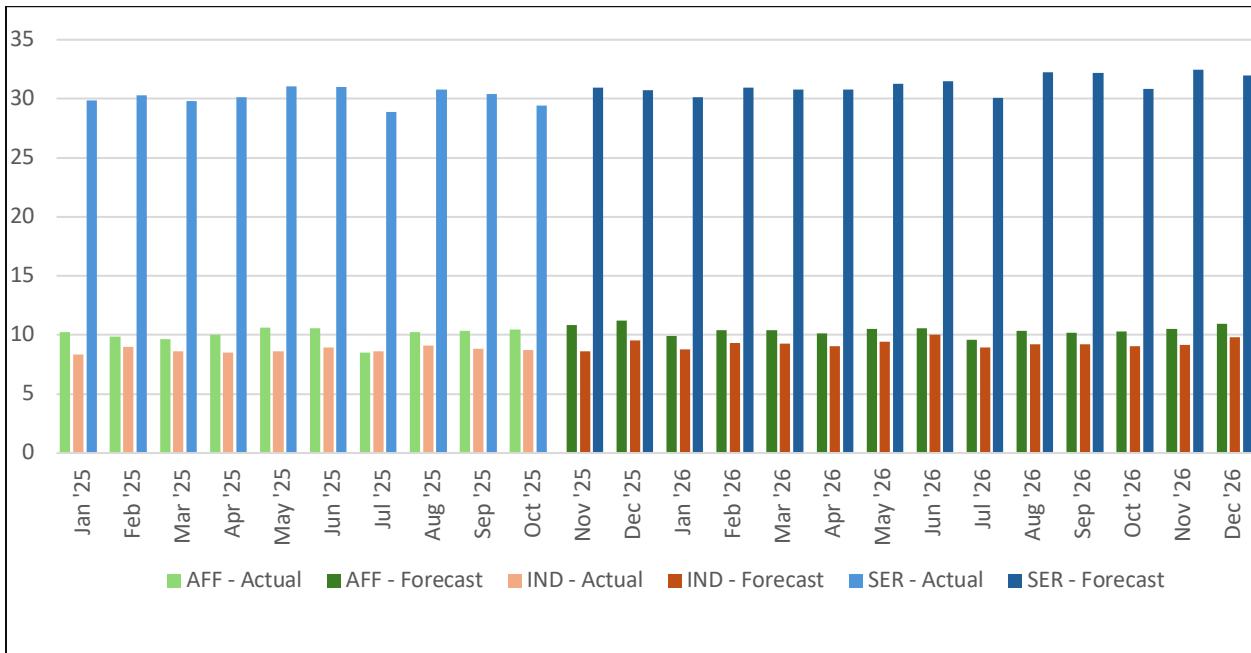


Figure 9. Tourist Visitor Arrivals (in thousands)

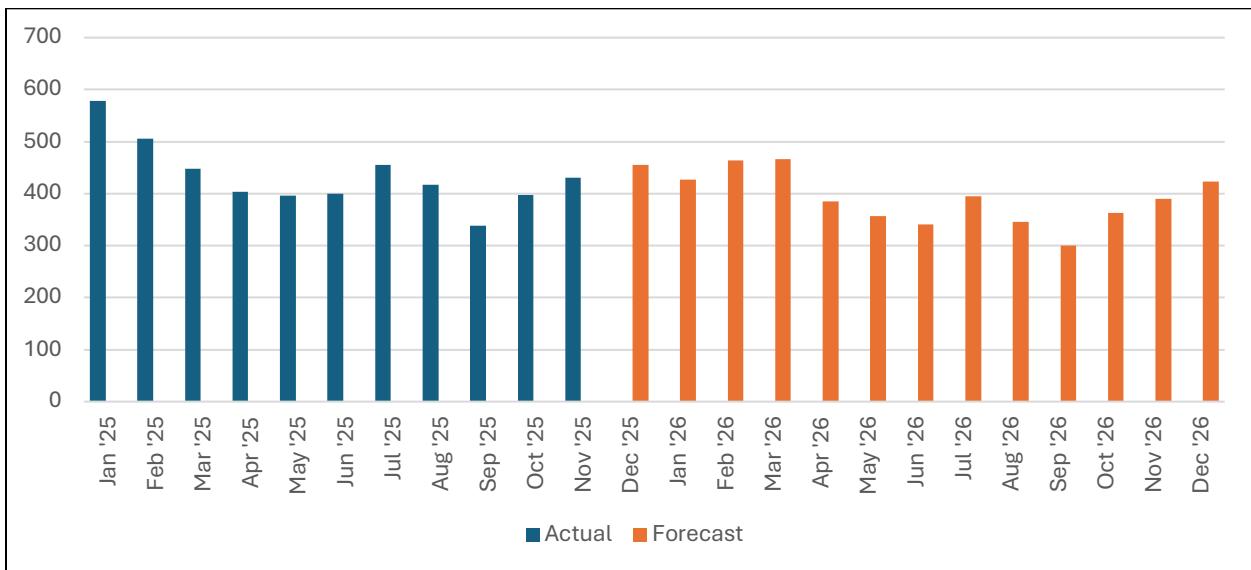


Figure 10. Total Building Permits

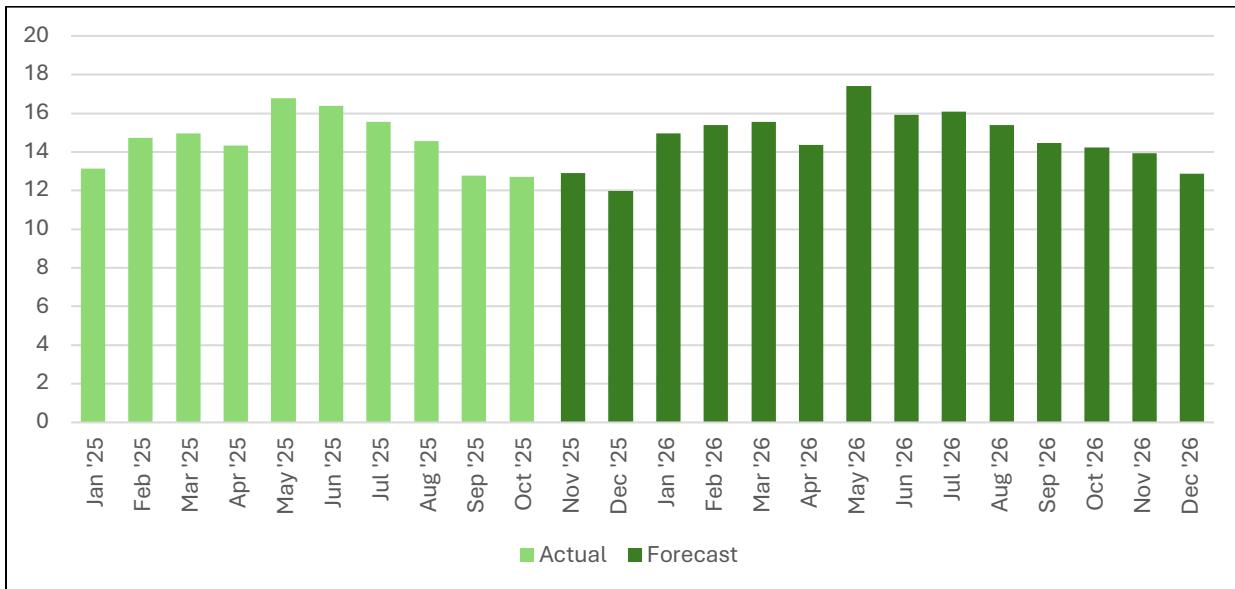


Figure 11. Average Capacity Utilization Rate (%)

