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Tariffs and scandals tested Philippine growth in 2025

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IN BRIEF

In 2025, the Philippines missed its 5.5–6.5 per cent growth target, with confidence in the economy diminishing after US reciprocal import tariffs were announced in April 2025. This confidence drop was further exacerbated by corruption scandals later in the year, inducing weakened consumer and investor sentiment. Beyond these shocks, underlying issues linked to productivity growth, labour force growth and the balance-of-payments-constrained growth rate constrain growth below 6 per cent. Creating higher and sustained growth will require policy reform that fosters economic transformation out of low-productivity sectors.

2025 was a difficult year for the Philippine economy. The country missed its growth target of 5.5–6.5 per cent. Confidence fell after the Trump administration announced reciprocal import tariffs in April 2025 and amid corruption scandals later in the year, weakening consumer and investor sentiment. While these shocks will weigh on short-term prospects, growth is expected to recover.

In August 2025, the Trump administration set a 19 per cent tariff on Philippine exports to the United States, up from an average rate of about 4 per cent. Yet, many products are exempt, in particular electronic components. The Philippines was forced to impose a zero per cent tariff rate on US imports, down from an average of almost 8 per cent. Concessions included eliminating tariffs on US automobiles and increasing imports of soy, wheat and medicines.

While the tariffs were unfair, their impact should be limited on the overall economy. The US market represents about 17 per cent of Philippine exports and the exemptions to the reciprocal tariff apply to the most important Philippine exports to the US.

As for the zero per cent tariff in the Philippines for US products, it is not clear that it has been fully implemented. The government has only confirmed a zero per cent rate for cars, wheat, medicines and soybeans and it refuses to lower tariffs on agricultural goods such as rice and poultry. The Philippine Supreme Court is still debating the legality of the tariffs. Slightly lower-priced US imports should also benefit Philippine consumers.

The discovery that billions of taxpayers' pesos destined for flood control projects had disappeared fuelled the widespread view that corruption continued to dampen confidence in the economy. The public is demanding not only convictions for those guilty but also the return of taxpayer funds.

But while corruption is rampant, it is not the main reason for the Philippines' long-term underperformance and underdevelopment. The history of East Asia's development, as well as that of Western advanced economies, shows that countries can grow and develop despite corruption, which tends to decline as income per capita increases.

There are countries with the same or higher corruption indices than the Philippines but significantly higher per capita income. Yet governance mechanisms to prevent this from happening again must improve.

What has irritated millions of Filipinos is the fact that they believe their taxes were stolen. While this is understandable, it is incorrect as it is technically impossible to steal taxes. Republic Act 7653 makes clear that the Philippine government spends by creating new money through the central bank and that taxes are not used to finance government spending.

The thieves stole bank deposits created by the central bank in conjunction with the Philippine Treasury to pay for the projects. This implies that the government, together with the central bank, has the capacity to replenish the stolen funds and undertake the projects. But this does not mean the situation should not be taken seriously — the lawbreakers must be punished.

Given these events, De La Salle University's December 2025 report on the Philippine economy forecasts growth of 4.8 per cent for 2025 and 2026, with a recovery in 2027 when growth could reach 5.9 per cent. The government's new growth targets are 5–6 per cent for 2026 and 5.5–6.5 per cent for 2027, down from the previous target of 6–7 per cent.

De La Salle's lower growth forecast for 2025 compared with 2023 and 2024 — 5.5 and 5.6 per cent, respectively — reflects slower growth in private consumption, gross fixed capital formation and higher import growth. The most important contributors to overall growth in 2025 will be government spending and exports. On the production side, industry growth is expected to decline compared with 2024. This will be offset by positive agricultural growth after negative growth in 2024.

Beyond the shocks that affected the economy this year, there are underlying reasons why the Philippine economy cannot grow beyond 6 per cent, well below the administration's initial target of 6.5-8 per cent. These relate to productivity growth and labour force growth on the supply side and to the economy's structure on the demand side, which determines the balance-of-payments-constrained growth rate. The estimated potential growth before COVID-19 is about 6 per cent. Growth above 6 per cent is unsustainable because it triggers inflation and current account deficits.

For decades, the Philippines has focused on low-productivity non-tradables that have not delivered what industrialisation did for East Asia and the advanced nations earlier — absorbing millions of workers and creating a middle class. The Philippines has also focused on reforms and initiatives that have not delivered much prosperity, such as establishing the Maharlika Investment Fund, undertaking capital market reforms and providing tax exemptions to firms without forcing them to industrialise and export.

It is too late for large-scale industrialisation. Yet there are niches in textiles, chemicals, metals, footwear and furniture that the Philippines could focus on, not to mention the importance of modernising agriculture. The largest manufacturing sector is food for the domestic market and the largest export is assembled electronic components where value added is low.

Higher and sustained actual growth in the Philippines will require significant economic transformation out of low-productivity sectors, to increase potential growth. The largest employers are agriculture, wholesale and retail trade and construction, which account for about 50 per cent of employment. Manufacturing, while important for growth, employs only about 8 per cent of the workforce. Moving forward in 2026, policy must focus on reforms that expedite economic transformation.

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