DLSU REPORT OF THE PHILIPPINE ECONOMY February 2026

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Continued economic stagnation

Our February 2026 forecasts, shown in Table 1, have been updated. The current forecasts show a larger deceleration in Philippine economic growth than we had previously forecasted. When the DLSU High-Frequency model incorporated the latest data available by the Philippine Statistics Authority and other relevant sources, estimated growth turned out to be lower. While the model had already begun to capture the economic deceleration by December 2025 (4.8% for 2025; 4.8% for 2026) and January 2026 (4.8% for 2025; 4.5% for 2026), it did not fully reflect the extent of the slowdown due to delays in the updating and releasing of several indicators. Third-quarter growth was revised downward from 4% to 3.9%, followed by an even weaker economic performance of 3% in the fourth quarter. This marks the lowest quarterly growth since the 3.8% recorded in the first quarter of 2021. As such, full-year growth for 2025 settled at 4.4% (preliminary estimate), representing a five-year low (excluding 2020).

Table 1: Year-on-Year Growth Rates (%)
Actual (2025) and Forecasts (2026-2028)

	2025				2025[a]	2026				2026	2027	2028
	Q1[a]	Q2[a]	Q3[a]	Q4[a]		Q1	Q2	Q3	Q4			
GDP	5.4	5.5	3.9	3.0	4.4	2.5	3.8	4.5	5.9	4.19	5.34	5.30
Private Consumption	5.3	5.3	4.1	3.8	4.6	4.1	4.0	4.5	6.6	4.81	4.95	4.53
Government Expenditure	18.7	8.7	5.8	3.7	9.1	6.0	10.9	13.2	13.6	10.88	13.06	12.73
Gross Fixed Capital	6.5	3.1	0.1	-7.2	0.5	-10.2	-10.3	-9.1	-7.3	-9.25	-5.83	-6.85
Exports	7.1	4.5	7.0	13.2	8.1	12.5	15.3	15.7	12.9	14.09	10.68	12.08
Imports	10.3	2.9	2.6	3.5	5.1	5.3	7.6	8.7	8.5	7.52	6.36	7.20
Agriculture	2.2	7.0	2.8	1.0	3.1	0.6	0.4	0.5	0.6	0.55	0.46	0.31
Industry	4.6	2.1	0.7	-0.9	1.5	-0.4	0.3	1.8	2.6	1.10	1.33	0.65
Service	6.2	6.9	5.5	5.2	5.9	4.0	5.8	6.3	8.0	6.01	7.62	7.71

Source: Philippine Statistics Authority (actual), DLSU High-Frequency Model of the Philippine Economy (forecasts)

Notes:

(i) a — Actual values (Philippine Statistics Authority)

(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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Such an outcome also falls significantly short of the government's re-revised target range of 5.5%-6.5% for 2025. This is the third consecutive year that the Marcos Jr. administration misses its annual growth target. The latest growth data closely aligns with our previous forecasts: the economy is still weighed down by declining confidence and a sharp contraction in investment.

Given the indicators available at time of completing this Report, the outlook for 2026 is muted, with our forecast pointing to a modest but slower growth of 4.19%. Despite a minimal quarterly growth in Q1 2026 at 2.5%, we predict a consistent upward trajectory throughout the year (3.8% in Q2 2026 and 4.5% in Q3 2026), peaking at 5.9% in Q4 2026. This outlook suggests a relatively steady economic recovery as the year progresses. With this, we expect conditions to gradually improve, with growth projected to increase to 5.34% in 2027 and 5.3% in 2028. Despite this gradual recovery, the government's official growth targets will likely remain elusive. As we have pointed out many times before, the potential growth (what technical conditions allow) of our economy is about 6% and no more than this. While it may be possible to achieve higher actual growth for a year or two, it would eventually return to potential. As we have also explained, sustained higher growth requires changing the structure of the economy. We are updating our estimates of potential growth because the latter also adjusts (is endogenous) to actual growth. It is possible that weaker actual growth is pulling down the economy's potential growth.

Household consumption gradually softened throughout the year. Despite the expected increase in expenditure due to the holidays, household spending growth contracted from 4.1% in Q3 2025 to 3.8% in Q4 2025. Full-year growth settled at 4.6% for 2025, slightly lower than its 2024 figure (4.9%). Such figures show a slow consumption growth stemming from a lack of consumer confidence, despite Philippine inflation in 2025 reaching a nine-year low of 1.7%. Looking ahead, our forecast shows eventual recovery in 2026, with quarterly growth floating within the 4% range in the first three quarters of the year. We forecast consumption to peak at 6.6 in the fourth quarter of 2026 before closing at 4.81%. Such momentum is predicted to spill over in 2027 at 4.95%, though moderation may be seen in 2028 at 4.53%.

Government spending also tapered sharply across subsequent quarters, dropping from 5.8% in Q3 2025 to 3.7% in Q4 2025. Annual growth in fiscal expenditures reached 9.1% in 2025, a figure that exceeds the 2024 rate (7.3%) primarily due to strong, election-driven spending in the first quarter of 2025 (18.7%). Consistent with our past monthly reports, we maintain that delays in government disbursements (due to corruption probes on state projects) explain constraints in public spending. Nevertheless, our model predicts acceleration in government spending to 10.88% in 2026 as pending projects and major infrastructure spending must commence again. Our quarterly forecasts also reflect such trend. From a 6% rise in Q1 2026, fiscal spending will return to double-digit growth in the next three quarters of 2026 (10.9% in Q2 and 13.2% in Q3), eventually peaking at Q4 2026 at 13.6%. Double-digit growth is also expected to be sustained in 2027 at 13.06% and 12.73% in 2028. Ultimately, this recovery depends on the capability and political will of the current administration to reinstate public trust through exacting accountability and putting up necessary institutional mechanisms to address corruption.

Consistent with our previous releases, investment growth continues to pose a serious drag on the Philippine economy. Downward momentum persisted throughout the year, with a notable decrease in growth to just 0.5% in the third quarter of 2025, followed by a sharp contraction of -7.2% in the final quarter. Full-year growth in total investment was recorded at 0.5%, showing a particularly concerning trend on capital formation. Such trajectory also matches recent data showing Philippine bank loan growth dipping to a 22-month low of 9.2% in December 2025. These figures further suggest that, despite expansionary efforts by the Bangko Sentral ng Pilipinas (BSP), economic confidence remains hindered by unresolved graft cases that continue to undermine business sentiment. Unless tides are turned, we project further contractions to occur in 2026 at -9.25%. Our model shows a consistently negative growth in investment spending across all quarters of 2026. We also anticipate this occurrence to spill over in 2027 (-5.83%) and in 2028 (-6.85%). This is an alarming situation that needs to be addressed through appropriate policy reforms that improve firm productivity and business confidence.

On the other hand, the external sector shows promise to keep the economy afloat. Export growth increased from 7.4% in Q3 2025 to 13.2% in Q4 2025, with annual rate closing at 8.1%. Meanwhile, import growth edged upward from 3.2% in Q3 2025 to 3.5% in Q4 2025, ending the year at 5.1%. These figures were supported by the Philippine peso reaching an all-time low in December 2025, primarily induced by the anticipation of rate cuts from the BSP. With the current trajectory of the Philippine peso, we forecast a narrower trade deficit in 2026, as export growth accelerates to 14.09% while import growth increases to 7.52%. Specifically, quarterly export growth is expected to remain robust throughout the year, peaking within the 15% mark in Q2 (15.3%) and Q3 (15.7%) before slightly decelerating in Q4 (12.9%). Quarterly import growth will also steadily rise across all quarters (5.3% in Q1 and 7.6% in Q2) before settling within the 8% range in the last two quarters (8.7% in Q3 and 8.5% in Q4). Overall, the trade sector is expected to stay resilient amid uncertainties in the global economic landscape, with export growth (10.68% in 2027 and 12.08% in 2028) expected to outpace import growth (6.36% in 2027 and 7.2% in 2028) in the next two years.

On the supply side, agricultural output growth diminished from 2.9% in the third quarter to 1% in the fourth quarter, settling at 3.1% in 2025. This annual figure was largely supported by the strong sectoral performance in the second quarter (7%). Slower growth is expected to occur in 2026 (0.55%) as quarterly growth is predicted to stay under 1% across all quarters. The trend is also expected to continue in 2027 (0.46%) and 2028 (0.31%).

Services maintains a robust performance, keeping its output growth within the 5% range in the last two quarters of 2025 (5.4% in Q3 and 5.2% in Q4). Full year growth for the sector ends at 5.9%. Despite a muted Q1 2026 growth (4.0%), we project that the services sector will keep its momentum in 2026 (6.01%). Quarterly growth is expected to surge in the middle of the year (5.8% in Q2, 6.3% in Q3) and reach its peak in Q4 (8%). The sector is anticipated to constantly outperform other sectors in 2027 (7.62%) and 2028 (7.71%).

However, the growth in industrial output continues to stall. From a significant decrease to 0.7% in Q3 2025, sectoral output contracted in the final quarter of the year (-0.9% growth) before finishing at 1.5% in 2025—a notable reduction compared to the 2024 figure (5.6%). This fragility will persist over the next three years, with forecasted growth remaining near 1% in 2026 (1.1%). Industry output growth is projected to decline in the first quarter (-0.4%), with a steady (but minimal) recovery anticipated in the next three quarters of 2026 (0.3% in Q2, 1.8% in Q3, and 2.6% in Q4). We predict a sustained trend in 2027 (1.33%), before easing further in 2028 (0.65%). Our forecasts align with the projected dip in capital formation, raising further qualms on the industrial sector's ability to propel economic expansion.

The takeaway: The cost of political and economic uncertainty

Over the past several months, the patterns identified in our monthly reports have closely matched official data released by the Philippine Statistics Authority. Our forecasts this month include updated indicators through late 2025. While official data from some indicators await further updates, the performance of our model demonstrates its capacity to capture critical trends—both across the demand and supply sides of the Philippine economy.

The political developments in late 2025 (the exposition of various corruption scandals) primarily functioned as an exogenous shock, an event that naturally lies outside the scope of predictive modelling. Although it may require time to integrate such sudden shifts, it is clear that our model has been consistently reacting to the evolving economic and political landscape—one that affects consumer and business confidence. Our results and analysis continue to reinforce a singular narrative: economic pessimism is gradually permeating the economy, acting as a persistent weight on national growth prospects. Such observation has also been evident in the downward trajectory of several key indicators included in our model. We firmly believe that we should not ignore these tell-tale signs of economic stagnation.

In a recent conference, Finance Secretary Frederick Go assured foreign investors of the country's strong macroeconomic fundamentals in an effort to restore trust and economic stability. While that may be true, we contend that the issue lies not on the soundness of these economic fundamentals, but rather the further entrenchment of low economic confidence especially in the short term. Without a swift resolution of corruption scandals, the implementation of good governance measures, and long-overdue reforms focused on industrial support and ease of doing business, we predict that economic expansion will remain constrained within the 4%-5% range.

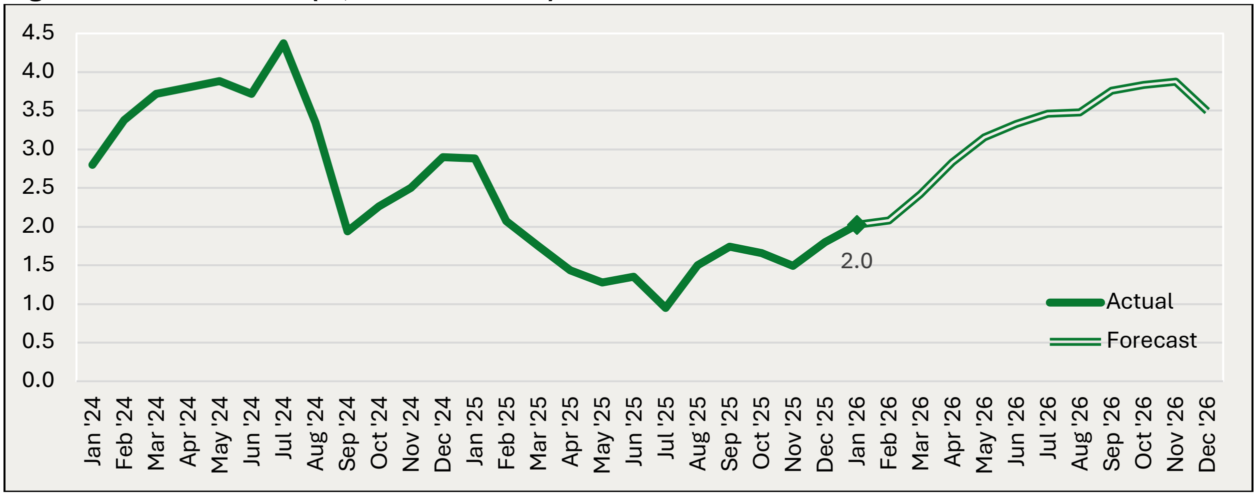
Our model clearly illustrates this path in the next two to three years. While recovery is predicted in 2027 (5.34%) and 2028 (5.3%), we anticipate that this economic rebound will plateau within the 5 to 5.5% range—failing to reach the government's 6% target. We keep aligning towards a 5% growth—essentially returning to historical averages rather than moving towards a higher growth path. Unfortunately, current policy responses appear to downplay the impacts of economic pessimism—the least we need in this time of economic lethargy.

In the meantime, we will continue to refine these projections in our future releases once data become more available.

Inflation

Inflation continued to rise, from 1.8% in December 2025 to 2% in January 2026 (see Figure 1) — the highest it has been since February 2025. Our forecasts show that it will continue to climb throughout the year, reaching a projected average of 3.1% for 2026, almost twice that of 2025, 1.7% and near that of 2024, 3.2%.

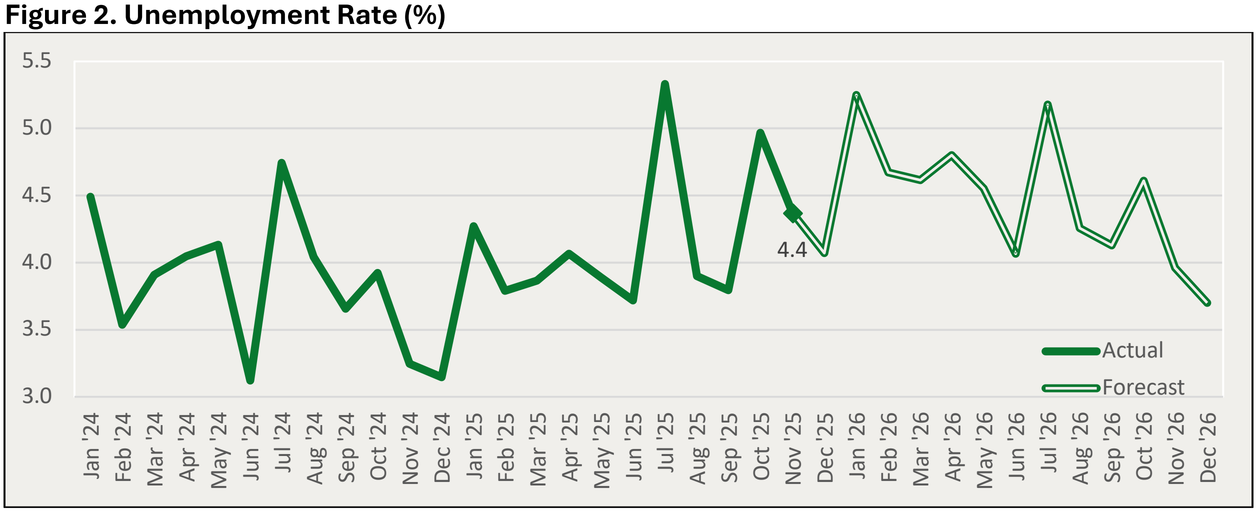
Figure 1. Inflation Rate (%, CPI 2018 = 100)



Unemployment and Employment

In November 2025, unemployment eased to 4.4% from the 5% rate in the preceding month (see Figure 2). The forecasted average unemployment rate for 2025 remains the same as last month, at 4.2%, higher than 2024's average of 3.8%. Forecasts also show that the average for 2026 will be slightly higher, at 4.5%.

Figure 2. Unemployment Rate (%)



All three sectors saw a decline in year-on-year employment for November 2025 (see Figure 3). The Agriculture, Fisheries, and Forestry (AFF) sector decreased the most by 0.7%, followed by the Services (SER) sector decreasing by 0.6%, and the Industry (IND) sector decreasing the least by 0.3%.

Our forecasts show that average employment in the SER sector for 2025 will grow the most from the previous year, at 1.2% (see Figure 4). This is followed by the AFF sector's near-stagnant growth of 0.1%. The IND sector, however, is projected to decline by 1.2% from last year.

Figure 3. Monthly Change in Employment (%, y-o-y)

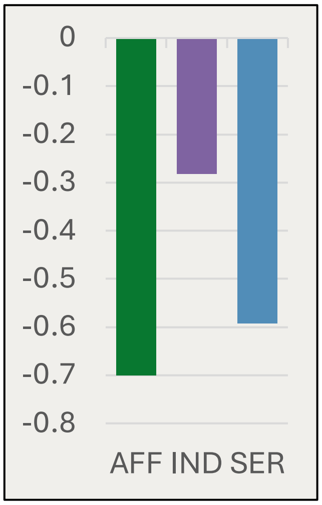
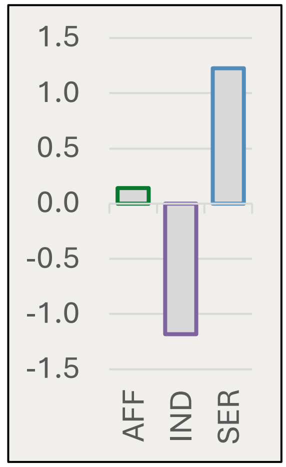


Figure 4. Change in Average Employment (%, y-o-y)



*December 2025 uses forecast values

Merchandise Trade and Exchange Rate

Merchandise exports grew at a rate more than thrice than that of merchandise imports in 2025. The former showed a growth of 15.2% from 2024 while the latter only showed a shy 4.7%. However, our 2026 forecasts show a flip: merchandise imports would grow almost twice as much as merchandise exports. We forecast imports to grow by 12.1% and exports to slow down to a growth of 6.6% in the coming year.

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

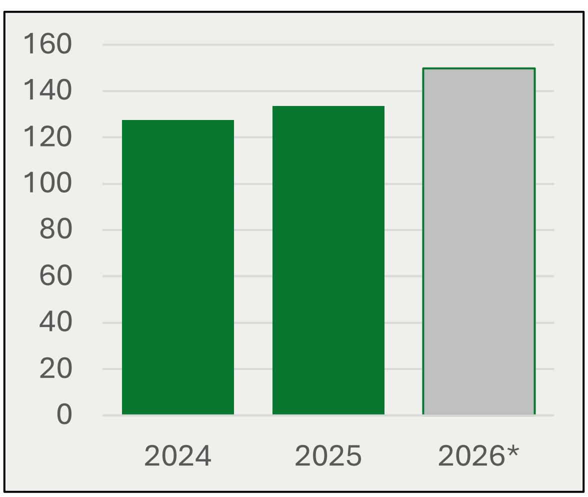
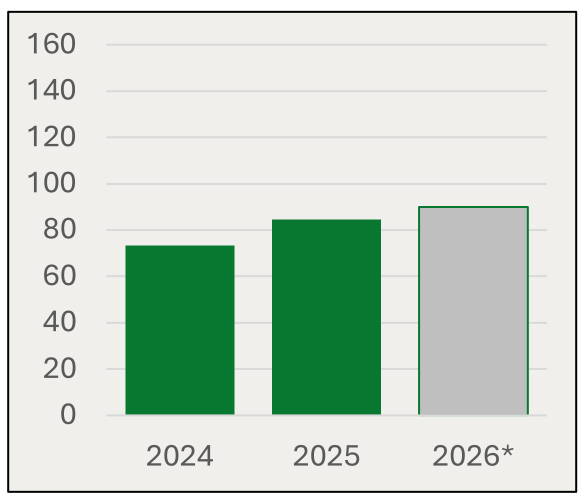


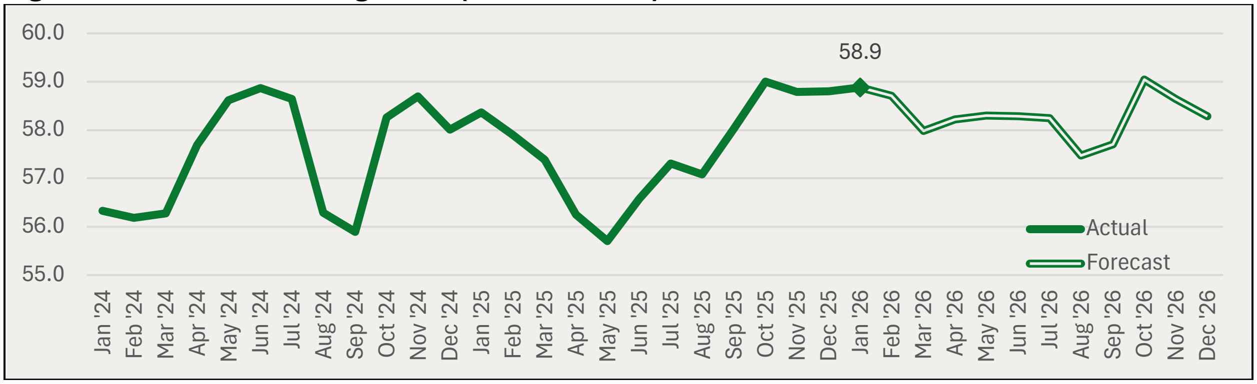
Figure 6. Total Annual Merchandise Exports (in billions USD)



*2026 figures are forecasted values

The PHP/USD exchange rate depreciated slightly in January 2026. It closed at 58.9 from 58.8 in the previous month (see Figure 7), which reaffirmed our previous forecast. The peso is forecasted to appreciate against the US dollar and close at 58.7 this February and the forecasted average exchange rate for 2026 is 58.3.

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



Government Securities

The 91-day T-Bill Rate continues its decline, decreasing to 4.77% in December 2025 (see Figure 8) from 4.85% in the previous month. The 10-year T-Bond Rates also decreased — though to a lesser extent — from 5.89% in November 2025 to 5.88% (see Figure 9). Our forecasts show that the 91-day T-Bill Rate will continue declining until March 2026, after which it will bounce back and stabilize at the 5% mark for the rest of the year. The 10-year T-Bond Rates, on the other hand, will hover around 6% until the end of the year.

Figure 8. 91-day T-Bill Rates (%)

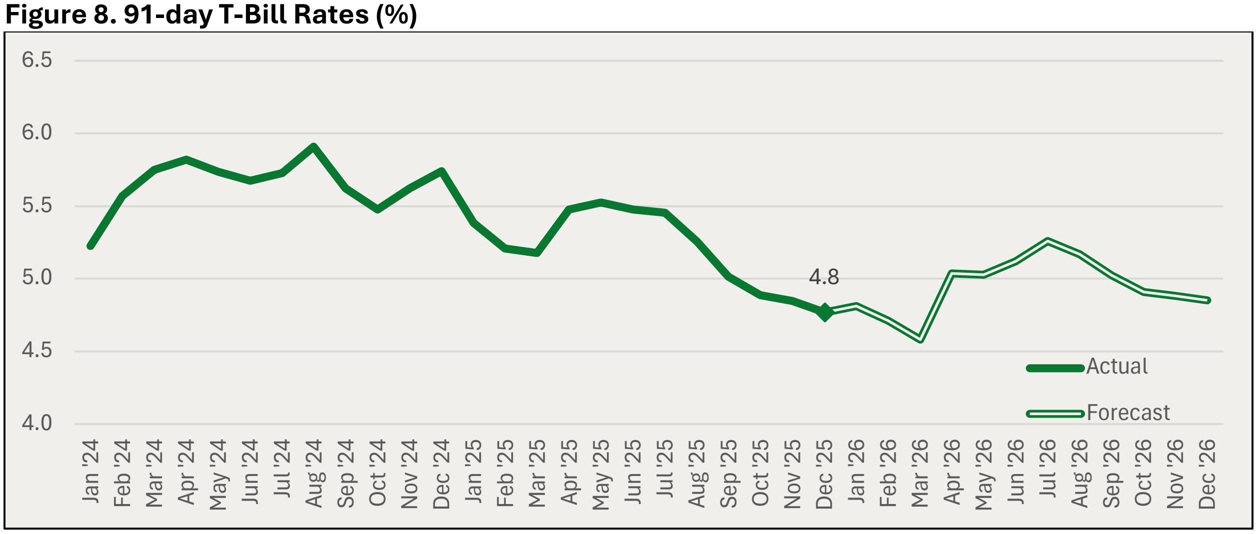
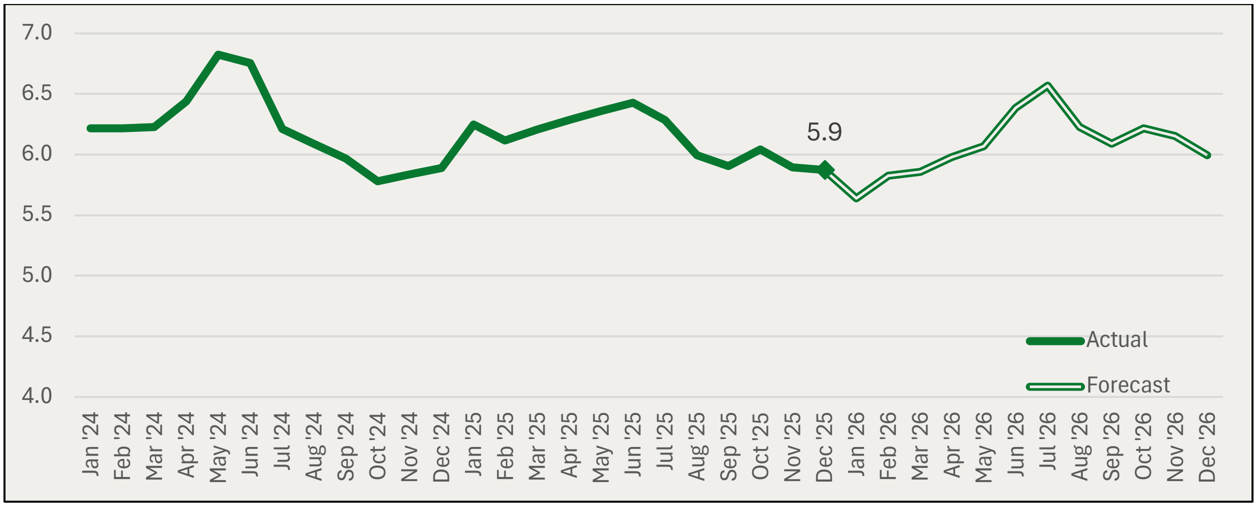


Figure 9. 10-year T-Bond Rates (%)



Forecast Graphs of Selected Indicators:

Figure 10. Employment by Sector (in millions of people)

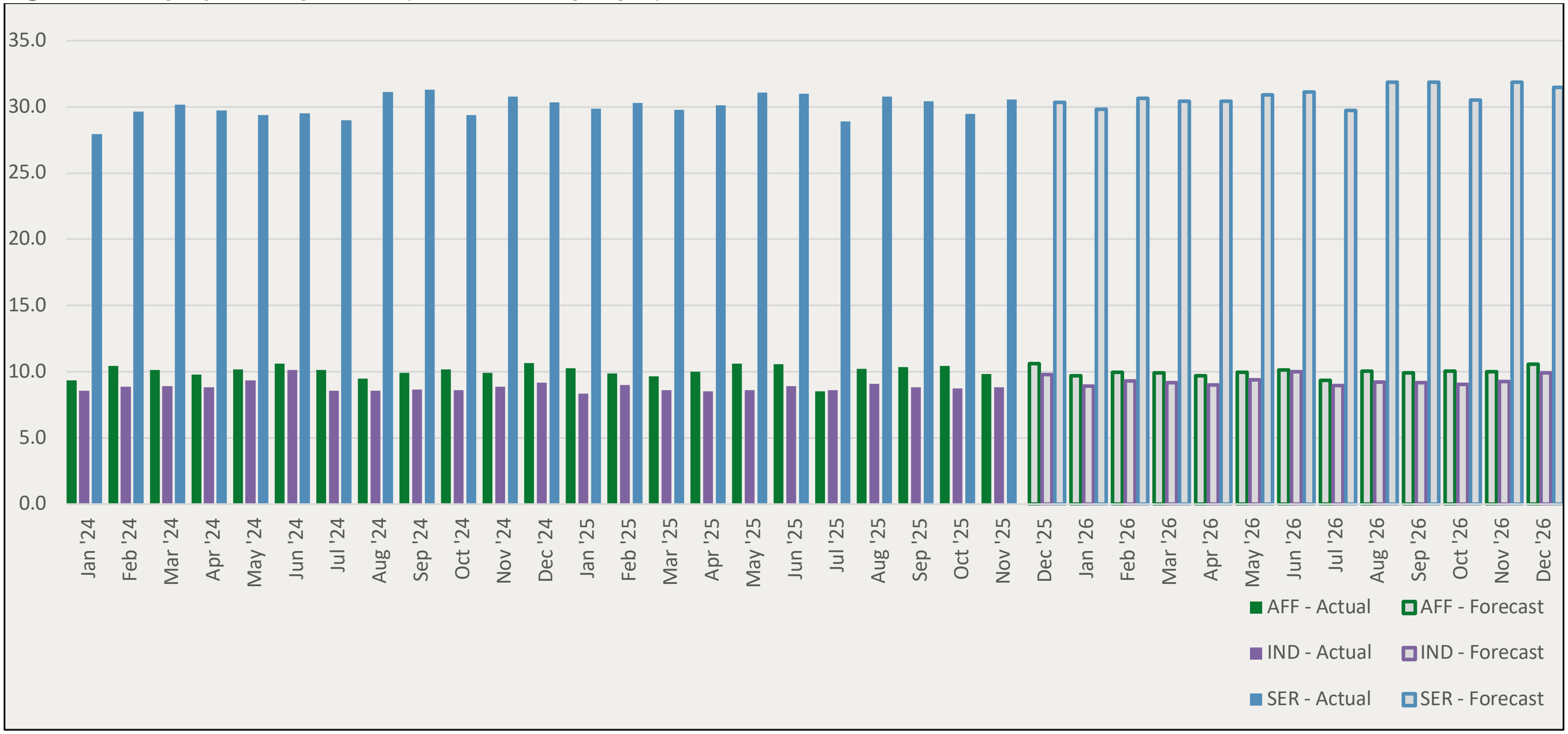


Figure 11. Tourist Visitor Arrivals (in thousands)

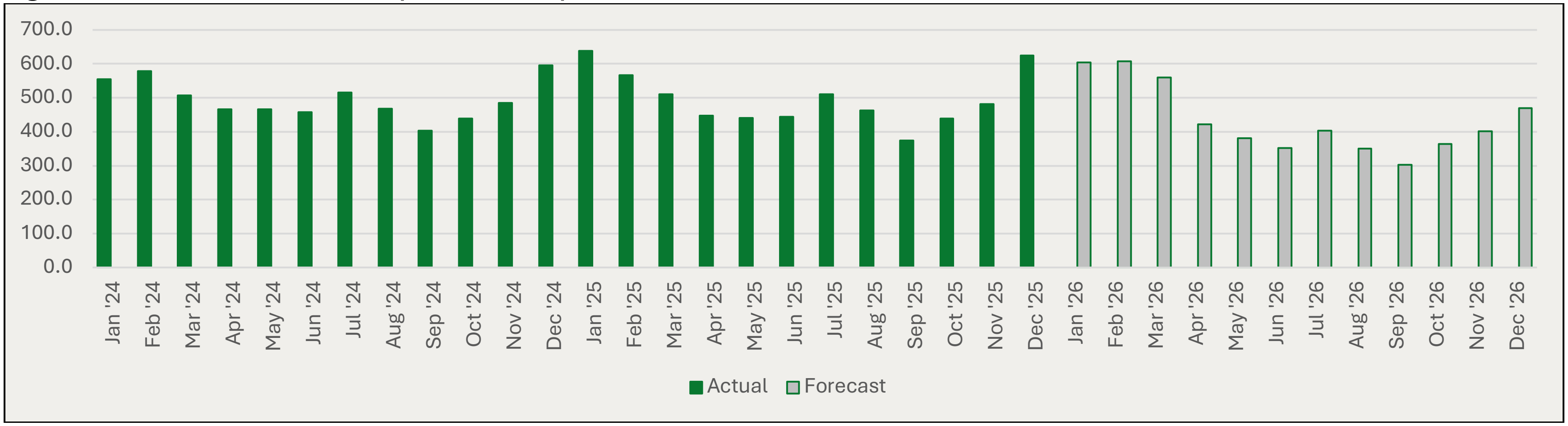


Figure 12. Total Building Permits

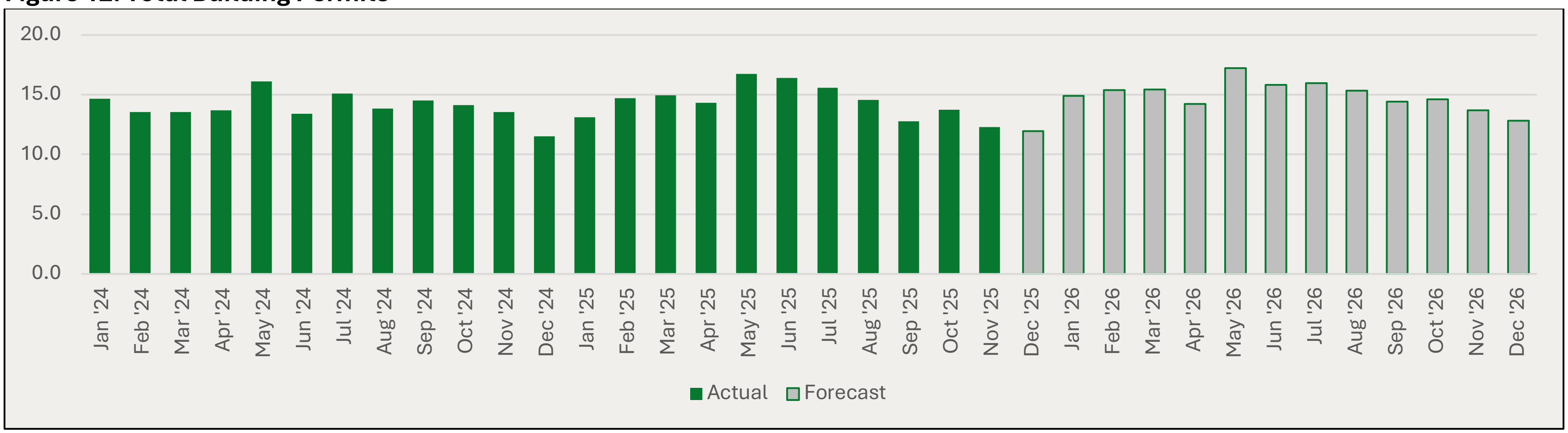


Figure 13. Average Capacity Utilization Rate (%)