[Philippines]

OUTLOOK 2026

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Executive Summary

The Philippines closed 2025 with notable economic resilience, despite global uncertainties and domestic pressures. According to International Monetary Fund (IMF) assessments, real GDP growth reached about 5.4 – 5.5%, supported by solid performance in services, sustained private consumption, and steady remittance inflows. Growth in the first quarter hit 5.4%, the fastest start to a year in recent quarters.

Inflation declined in 2025, calming earlier pressure on prices and enabling the central bank to ease policy rates - a move that helped sustain consumption and private-sector demand. Meanwhile, the current-account deficit narrowed and balance-of-payments pressures eased, strengthening macroeconomic stability.

On the structural front, the country advanced key reforms to support business and investment. New or updated legislation - such as investment-friendly fiscal and regulatory measures - helped attract fresh capital. At the same time, public investment in infrastructure and social services, under the new budget framework for 2025, provided a backbone for long-term growth.

Politically, 2025 marked significant efforts in governance reform and institutional strengthening under the administration of Ferdinand "Bongbong" Marcos Jr.. The budget law passed for 2025 allocated major resources to infrastructure, education and public works - signalling a continued commitment to development-oriented spending. In addition, authorities took steps to tighten oversight and boost transparency, especially in light of controversies in certain

infrastructure programmes, in the process underscoring a political resolve to improve institutional accountability.

From a geopolitical and trade-policy perspective, 2025 saw the Philippines deepen efforts to position itself as a more attractive node in global value chains. By promoting investment incentives and regulatory predictability, the government signalled its ambition to draw in foreign capital and integrate more broadly in regional supply networks.

Looking ahead, if the Philippines maintains macro-economic discipline, completes pending reforms, and sustains investment momentum - particularly in infrastructure, human capital and export-oriented sectors - it stands poised to achieve steady, inclusive growth over the medium term. The challenge will lie in balancing growth ambitions with effective governance, controlling vulnerabilities (such as external shocks or institutional risks) and ensuring the benefits of growth reach broad segments of society.

1.0 Politics

Turmoil, outrage and a push for accountability

In 2025 the Philippines was rocked by one of its largest displays of public anger in years. Revelations of massive corruption linked to flood-control infrastructure projects - including so-called “ghost” works and substandard disaster-mitigation schemes - provoked fierce backlash. In September, thousands marched in the capital and beyond demanding transparency and resignations from implicated officials. The resulting demonstration movement - broadly described as the "anti-corruption protests" - saw both peaceful assembly and clashes with police, leading to hundreds of arrests in some instances.

The political shock forced the government into action. In July the president announced a sweeping independent investigation. A new Independent Commission for Infrastructure (ICI) was established to probe irregularities in flood-control works and other public-works projects, and by late November, several public-works officials had been jailed, assets frozen, and at least one former engineer repaid misappropriated funds.

Economic cost, political shake-up, and lingering vulnerabilities

However, the scandal came at a steep price. Investment confidence weakened, and growth slowed: GDP expansion in the third quarter dropped to just 4% - the slowest in four years - dragging down fiscal momentum and raising fears about long-term growth. Infrastructure spending plunged as authorities froze dubious projects and moved more cautiously.

Politically, 2025 also saw a degree of turbulence. In May the administration reshuffled its cabinet after poor mid-term election results in what was the first such wholesale ministry change in many years.

Meanwhile, longstanding structural problems remain: dynastic political networks still dominate many local and national offices, and public distrust - especially among younger voters and civil-society groups - has been amplified.

Looking ahead: what Manila and the nation must confront in 2026

For Manila and the national leadership, repairing credibility will be crucial. The ICI's investigations must result not just in arrests but also in transparent, systemic reforms and restitution, or public anger risks simmering into sustained political instability. At the same time, the government faces the challenge of reviving growth, accelerating legitimate infrastructure spending, and restoring confidence among investors and ordinary people hit by flooding, inflation, and weak public services.

Moreover, the Philippines begins a new diplomatic and regional role in 2026, inheriting the chair of ASEAN. That will force Manila to balance fragile domestic legitimacy with delicate international expectations - especially as it navigates maritime disputes with China, climate-driven disasters, and regional security tensions.

In sum, 2025 has been a watershed year: public outcry exposed deep systemic faults, the state responded with investigations and reshuffling, and accountability has begun. Whether the Philippines can translate that moment into durable reforms and avoid repeated cycles of scandal depends on how honestly and thoroughly its leaders proceed in 2026.

2.0 Macro Economy

• 2.1 GDP

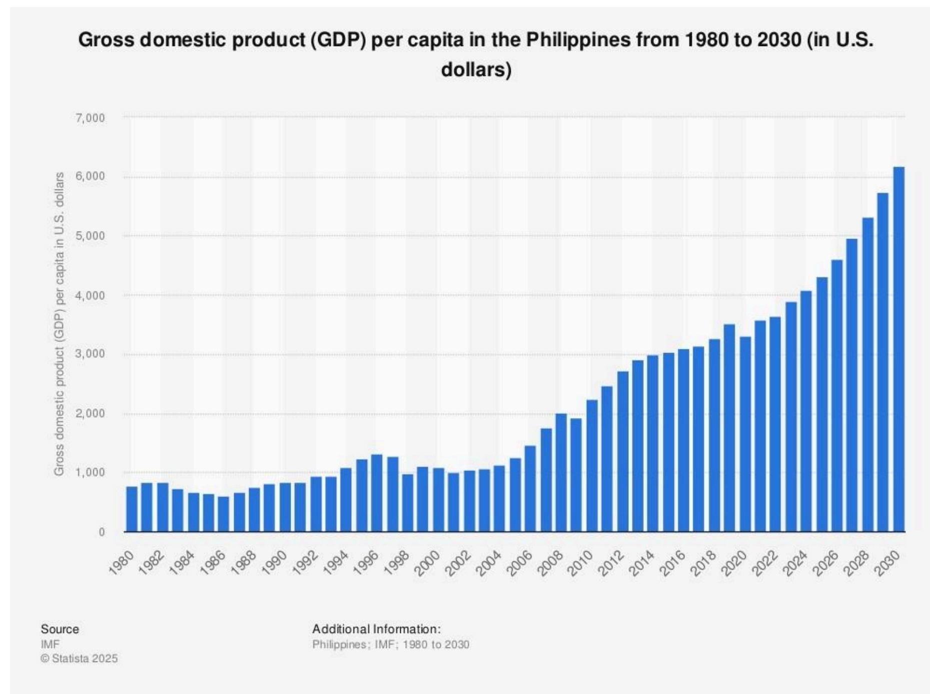
In 2025, the Philippine economy is projected to expand by around 5.6%. This reflects a more moderate pace than the government's original 6–8% target, but still marks a continuation of steady growth driven largely by internal demand, public infrastructure investment, and resilience in services and remittances. Analysts at Nomura in Japan, for instance, identify government-led infrastructure and sustained consumer spending as key anchors.

Other forecasters have offered slightly different scenarios: some see growth closer to 5.9% in 2025, depending on how global headwinds - such as trade tensions and weaker external demand - play out. Meanwhile, domestic factors remain favourable in the form of moderate inflation, room for interest-rate cuts, and continued public and private investment.

That said, risks remain. The economy faces uncertain external conditions - weak global demand and tariff pressures - which could dampen export performance and investment. Added to this, structural constraints, including political uncertainty, potential slowing of global remittances, and regional trade headwinds, may limit upside potential.

Expected 2026 growth sees most forecasters anticipate growth of around 5.7 – 5.8% in 2026, assuming continued domestic demand, stable investment and

somewhat improved external conditions.



• 2.2 Monetary Policy

In 2025, the Philippines has seen unusually subdued inflation, opening room for a more accommodative monetary policy. Headline consumer price inflation began the year relatively modest: in January 2025, inflation was projected to settle between 2.5–3.3 %. By mid-year, the easing of key food and fuel prices - particularly rice, vegetables, and energy - helped push inflation down: by May it had dipped to ~ 1.3 %, and in July as low as ~ 0.9 %.

Reflecting the benign inflation environment, the BSP moved to lower its policy rates over the year. In June 2025, the policy rate (reverse repurchase, or RRP rate) was cut by 25 basis points to 5.25%. Four months later in October the BSP delivered another 25-basis-point cut, bringing the RRP rate to 4.75%. In total, the central bank has trimmed rates by 175 basis points since 2024.

The BSP's decision reflects a "dovish but data-dependent" stance: with inflation remaining well within the government's 2–4 % target band - BSP itself revised its 2025 forecast down to ~1.6 % from an earlier 2.4 %. The muted inflation and soft global demand gave room to support growth by cutting borrowing costs. Private analysts expect the BSP may deliver another 25 bps cut by the end of 2025.

At the same time, vulnerabilities remain. The BSP has flagged potential upside risks to inflation — from possible increases in global oil prices, adjustments in electricity rates, and higher rice tariffs. As a result, the economic backdrop remains mixed, as growth slows and global uncertainty persists.

What to expect in 2026

Assuming inflation stays within or modestly above target and global price pressures remain contained, BSP is likely to maintain a supportive monetary stance in 2026. Analysts expect total rate cuts of another 50 basis points, possibly lowering the RRP rate to around 4.25%. Inflation may drift up toward the mid-target range - perhaps averaging ~3.3–3.4 %, reflecting base effects, potential utility or fuel-price changes, and currency as well as sluggish-global trade headwinds.

In that scenario, lower borrowing costs combined with stable prices could support domestic demand, but economic growth hinges on fiscal policy effectiveness and external demand stability.

3.0 External Environment

The Philippines' external environment in 2025 presented a challenging mix of geopolitical tensions, shifting trade dynamics, and volatile global financial conditions - all of which shaped the performance of the economy and exerted considerable influence over the peso.

A central factor was the evolving trade climate driven by new United States tariff measures. Washington's decision to raise tariffs on selected Asian manufactured goods, particularly electronics and intermediate components, created complications for Manila. As a major exporter of semiconductors and assembled electronics, the Philippines faced potential supply-chain reconfigurations and risks to its export competitiveness.

Although the country was not the primary target, the ripple effects were significant: higher costs for imported components and concerns that multinational firms might adjust their sourcing strategies added uncertainty to export earnings. At the same time, some analysts argued that the Philippines could attract investment from firms seeking to diversify away from heavily tariffed economies, though such benefits were slow to materialise and are still being debated.

Geopolitical instability further darkened the external outlook. The wars in Russia - Ukraine and Gaza contributed to elevated global energy prices, raising the Philippines' import bill for fuel in what is an especially sensitive issue for a nation dependent on petroleum imports for transport and power. Episodes of price spikes placed upward pressure on domestic inflation and weakened purchasing power, compelling the BSP to maintain a cautious monetary stance even as growth concerns mounted. Higher shipping and insurance costs, driven by disruptions in key routes such as the Black Sea and the eastern Mediterranean, also weighed on trade flows affecting the Philippines.

Currency movements were likewise shaped by the global financial environment. The prolonged uncertainty surrounding US monetary policy kept investors cautious, and the peso experienced intermittent depreciation as funds flowed into dollar-denominated assets.

During periods of especially strong dollar strength, the BSP intervened to smooth volatility and reassure markets, stressing the soundness of the country's external position and adequate foreign-exchange reserves.

Despite these pressures, the Philippines benefited from resilient remittance inflows from overseas workers, and steady demand from regional trading partners. Nonetheless, the combination of geopolitical risks, shifting tariff regimes, and fragile investor sentiment left the economy more exposed to external shocks than in previous years. Strengthening export competitiveness, improving energy security, and deepening regional trade integration remain essential if Manila is to mitigate these vulnerabilities and stabilise the peso in the years ahead.

4.0 Budget & Debt

• 4.1 Federal Budget

The Government of the Philippines has unveiled a record-setting 2026 national budget that underscores a clear intention to anchor future growth on human-capital investment and infrastructure, while resuming some fiscal prudence. The proposed budget totalling PHP6.793 trillion ($115bn) represents a 7.4% increase over the 2025 allocation, and amounts to roughly 22% of GDP.

Education emerges as the largest single beneficiary: the Department of Education (DepEd) along with tertiary- and technical-education agencies are slated to receive about PHP1.38 trillion, equivalent to approximately 4.5% of GDP.

Beyond education, the budget channels PHP256.5bn to the agriculture sector, targeting modernisation, irrigation and agrarian reform agencies - signalling a push to enhance food security and rural productivity. Infrastructure, social services, health and workforce upskilling also remain priorities, in line with the government's medium-term development plan.

On financing, around PHP4.98 trillion of the 2026 outlays would be covered by projected revenues meaning that borrowing remains necessary, albeit with a commitment to "collect better, spend smarter and borrow less".

Still, some analysts warn the ambitious spending may stretch fiscal space, particularly if revenue growth disappoints or procurement delays hinder delivery.

The 2026 budget nevertheless reflects a deliberate shift: positioning social investment, infrastructure and human-development as the bedrock for long-term growth - yet balancing that ambition with a cautious emphasis on financial discipline.

• 4.2 Debt & Gross International Reserves

As Bangko Sentral ng Pilipinas (BSP) data and government disclosures indicate, the external-finance profile of The Philippines as it moves into 2026 shows a mixed but broadly stable picture with a rising debt stock matched by a robust cushion of foreign reserves.

By the end of March 2025, the Philippines' external debt stood at roughly $146.7bn, representing about 31.5% of GDP.This increase year-on-year, by some 14%, reflects fresh borrowings by the national government including global-bond issuance alongside offshore financing by domestic banks.

On the flip side, international-liquidity buffers remain strong. As of the end of October 2025, gross international reserves (GIR) reached $110.2bn, underpinning an external-liquidity cushion equivalent to approximately 7.4 months of imports and external payments.

In practical terms, this means that the Philippines enters 2026 with a manageable debt burden - substantial but not excessive by emerging-market standards - and with enough foreign-exchange liquidity to meet import needs and service short-term debt. The fact that most external borrowings are medium to long-term in maturity (with as much as 77.7% of external debt under medium- and long-term obligations by March 2025) cushions the country from refinancing risks in the near term.

Nevertheless, the upward drift in debt underscores a latent vulnerability. Should external conditions worsen through slower remittances or weaker export receipts, the country could draw on its reserves, but persistent deficits in the balance of payments might erode that buffer over time. Indeed, the modest drawdowns in GIR during mid-2025 reflect just that, even as BSP tries to maintain reserve adequacy.

Overall, the 2025–26 debt and reserves profile of the Philippines suggests a country balancing ambition and caution by using foreign borrowing to finance growth and infrastructure, while preserving a foreign-asset cushion substantial enough to buffer external shocks.

5.0 Real Economy

• 5.1 Retail

The Philippines' retail economy in 2025 displayed a measured recovery, supported by resilient household spending, moderating inflation and a continued rebound in tourism. After two years marked by price volatility and cautious consumer behaviour, shoppers returned to malls, supermarkets and online platforms with greater confidence than at any point since the pandemic ended.

Real wage growth improved marginally as inflation eased from earlier peaks, providing modest relief to lower- and middle-income households whose budgets had previously been stretched by higher food and transport costs.

Brick-and-mortar retail regained momentum, with mall operators reporting rising footfall and stronger leasing demand from fashion, electronics and food-service tenants. The Philippines' entrenched mall culture, underpinned by mixed-use developments and air-conditioned community hubs, continued to underpin the recovery.

Meanwhile, e-commerce platforms consolidated their gains, expanding logistics capacity and pushing further into provincial markets. Growth in online retail slowed from its pandemic-era highs but remained robust, supported by improved mobile-wallet adoption and aggressive promotional strategies.

However, challenges persisted. Currency volatility pushed up the cost of imported goods, particularly electronics and packaged food items, prompting retailers to manage inventories and pricing more carefully. Consumer credit expanded, but high interest rates kept borrowing cautious. Retailers also grappled with rising labour and compliance costs, driven by regulatory adjustments and higher minimum wages.

Overall, the sector entered a period of steady, if unspectacular, expansion. Consumption remained the backbone of economic growth, but its pace remained sensitive to external conditions - particularly fuel prices and global financial-market sentiment.

• 5.2 Manufacturing

Electronics manufacturing forms the Philippines' most important export-driven industrial sector, anchored in semiconductors, components assembly and testing. In 2025 the industry benefited from a partial rebound in global electronics demand, following the sharp cyclical downturn of the previous year.

Cavite, Laguna, Batangas and Clark all remain major industrial zones hosting major multinational producers such as Texas Instruments, NXP Semiconductors, Samsung, Murata and ROHM.

The country specialises in semiconductor assembly, packaging and testing rather than wafer fabrication, with integrated circuits, sensors and power modules forming the core product lines.

Texas Instruments' operations in Baguio and Clark remain among the largest foreign manufacturing investments in the Philippines, producing chips for automotive and industrial applications. Growth in electric vehicles (EVs) and renewable-energy systems has lifted demand for power-management components, boosting orders for several mid-sized suppliers.

Infrastructure improvements - such as expansions at the Subic and Batangas ports - have also strengthened the industry's logistics footing. However, energy costs still remain higher than in competing markets such as Malaysia and Vietnam, challenging cost-efficiency, especially for energy-intensive assembly plants. Furthermore, the absence of an upstream semiconductor ecosystem limits the country's position in the global value chain.

Despite these constraints, the industry's role remains central to fiscal output. Government incentives through the CREATE Act and investment-priority programmes are encouraging firms to expand into chip design, advanced packaging and automation to maintain competitiveness in an increasingly sophisticated global market.

• 5.3 Banking Sector

The Philippines' banking sector in 2025 navigated a complex external and domestic environment marked by easing inflation, cautious loan demand and heightened global uncertainty. Banks entered the year with solid capital buffers and strong liquidity positions, enabling them to absorb volatility stemming from currency movements and geopolitical tensions. The BSP maintained a relatively tight monetary stance for much of the year, prioritising inflation control and peso stability amid shifting expectations around US monetary easing.

Credit growth improved but remained uneven. Lending to large corporates strengthened, especially in construction, logistics, energy and export-oriented manufacturing. Infrastructure projects - both private-sector initiatives and government-backed transport and digital connectivity schemes - supported loan pipelines.

However, SME lending remained subdued, constrained by elevated borrowing costs and lingering cash-flow pressures following years of inflationary strain. Consumer credit, particularly credit-card and auto loans, expanded modestly, although mortgage demand remained restrained due to high interest rates.

Asset quality held broadly stable. Non-performing loan ratios edged down as banks continued restructuring efforts and borrowers benefited from improved income stability. Large universal banks maintained particularly strong provisioning levels, while mid-tier lenders focused on tightening risk management frameworks to guard against external shocks.

Digital transformation accelerated across the sector. Banks expanded digital-wallet integration, instant payments and AI-driven fraud detection systems, responding to rising competition from fintech platforms. Regulatory efforts, including enhancements to cybersecurity standards and strengthened digital-bank supervision, reinforced financial-system resilience.

The external environment posed ongoing challenges. Global energy price volatility, driven by conflicts in Ukraine and the Middle East, affected inflation expectations as was to be expected and complicated monetary policy.

By the end of 2025, the Philippine banking sector remained fundamentally sound, though acutely aware of risks tied to global financial conditions.

The outlook for 2026 will thus hinge on sustained inflation moderation, stronger domestic investment momentum and a more predictable external environment.

• 5.4 Construction, Real Estate & Infrastructure

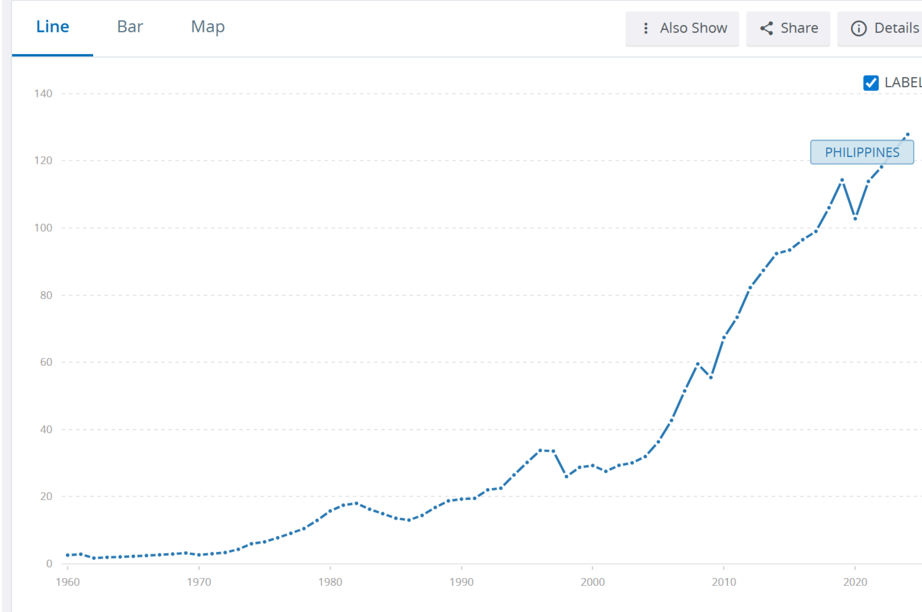
Construction and real estate remain major pillars of the Philippine economy, supported by sustained public-sector infrastructure spending and robust private-sector development. In 2025 the sector benefited from the continued rollout of the government's "Build Better More" programme, with flagship projects including the North-South Commuter Railway, Metro Manila Subway, and various regional airport expansions. These projects have created strong demand for materials, engineering services and transport-related construction.

The private real-estate market has shown uneven but improving performance. Commercial developments in areas including Bonifacio Global City, Makati and Ortigas have seen stable occupancy due to continued expansion by multinational service firms.

Ayala Land, SM Prime and Megaworld meanwhile, have launched mixed-use townships beyond Metro Manila, especially in Iloilo, Pampanga and Cebu, reflecting broader decentralisation trends. Residential demand has been resilient in the mid-market condominium segment, though luxury developments have cooled compared with their pre-pandemic momentum.

However, the sector faces multiple challenges, including elevated borrowing costs, bureaucratic bottlenecks in permitting and supply-chain disruptions affecting imported construction materials.

Inflation in steel and cement prices has, however, placed pressure on contractors, particularly those handling fixed-price government contracts.



Despite these constraints, infrastructure remains a strong fiscal driver, with spillover effects on transport, logistics and regional urban development. As large rail and airport projects progress, the construction and real-estate sectors are expected to remain central to national output growth

• 5.5 Agriculture

Agriculture and agribusiness retain considerable economic importance in the Philippines, both as a source of employment and as a contributor to food security. In 2025 the sector experienced mixed performance, with favourable harvests in some regions offset by El Niño-related droughts affecting rice, sugarcane and corn. Nevertheless, agribusiness and food processing have remained resilient, driven by strong domestic demand and expanding export opportunities.

Major players such as San Miguel Foods, Universal Robina Corporation (URC) and Del Monte Philippines continue to anchor the food-processing industry.

URC expanded its snack and beverage production for regional export markets, while Del Monte strengthened its processed-fruit offerings targeting Japan and the Middle East. The poultry and livestock industries also saw stabilisation following previous supply shocks, supported by improved feed availability and better disease-control measures, although the appearance of African Swine Fever (ASF) in Spain did worry pork exporters in early December.

The fisheries and aquaculture sectors also contributed meaningfully, with Mindanao remaining a hub for tuna and shrimp processing. However, vulnerability to climate events and rising input costs - particularly fertiliser and feed - continues to constrain output.

To enhance competitiveness, the government has prioritised mechanisation, irrigation upgrades and digital monitoring systems for crop management. Yet structural weaknesses persist: fragmented landholdings, logistical inefficiencies and inconsistent cold-chain infrastructure limit the scale of agribusiness operations.

Despite these long-standing challenges, agriculture and food processing remain integral to the Philippines' fiscal landscape. Growing investment in technology, coupled with expanding domestic and export demand, suggests a sector gradually shifting from low-productivity tradition to more commercially and technologically integrated agribusiness.

• 5.6 Other Corporate & Sectors

The business process outsourcing (BPO) and IT-enabled services industry remains the Philippines' single most influential service-sector contributor, accounting for a sizeable share of export earnings and formal employment. In 2025 the sector continued its upward trajectory, expanding both in headcount and in the complexity of services offered. The cities of Metro Manila, Cebu and Davao remain the primary hubs, though regional cities such as Iloilo and Bacolod have become emerging clusters supported by improved digital infrastructure and competitive labour costs.

Traditional call-centre operations still form the backbone of the industry, led by large multinationals including Accenture, Concentrix, Teleperformance and Optum. However, growth increasingly comes from higher-value segments such as software support, cybersecurity, data analytics and healthcare information management. The integration of AI-driven productivity tools - once perceived as a threat - has instead shifted operations towards hybrid service models, prompting firms to invest in upskilling programmes for specialised tasks.

Despite its resilience, the sector faces intensifying global competition. India and Vietnam in particular have strengthened their IT and engineering capabilities, while Mexico and Colombia are competing for US nearshoring contracts.

In response, the Philippines has doubled down on labour-force development through TESDA and private-sector training partnerships, prioritising cloud technologies and finance-related services.

Currency fluctuations and infrastructure gaps pose other ongoing challenges, particularly the uneven quality of broadband in emerging provincial locations across the archipelago. Still, the industry's adaptability, largely

English-proficient workforce and supportive regulatory environment ensure the Philippines' continued competitiveness in global outsourcing.

6.0 Energy & Power

• 6.1 Oil and gas production & transport

As the Department of Energy of the Philippines (DoE) and market participants cast their toward 2026, the country's oil and gas sector seems set to enter a phase defined by cautious optimism, but also mounting practical challenges.

The awarding in October 2025 of eight new Petroleum Service Contracts (PSCs), worth about $207mn in total, marked the largest batch of licences in the country's history. These cover explorations across offshore and onshore basins - including the Sulu Sea, Palawan, Cagayan, Cebu and Central Luzon - and even include the first competitive bids for "native-hydrogen" deposits, reflecting a government ambition to diversify the energy base and reduce reliance on imported fuel.

Yet the legacy of decline in domestic output, most notably from the ageing Malampaya gas field, means that 2026 will likely be characterised less by a surge in domestic oil and gas production than by a pivot towards imports, especially LNG. The shift is already visible: in the first half of 2025, gas-fired generation rose sharply, pushing the share of LNG-fired power to 17.5 %, up from 13.9 % in early 2023.

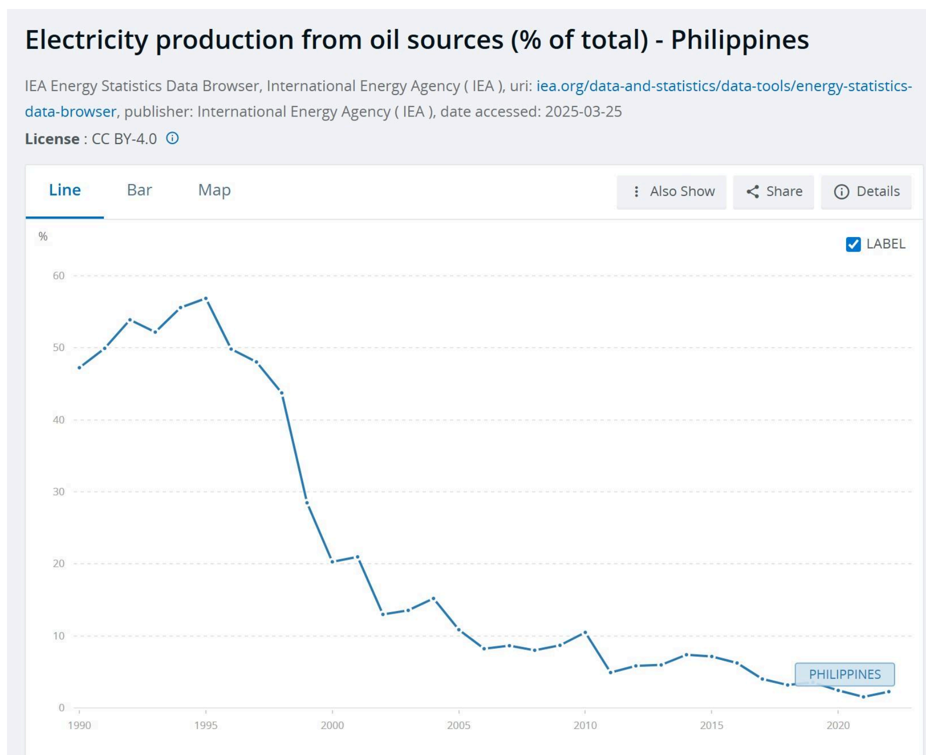
To support this energy transition, infrastructure remains central. While the Philippines has existing import terminals, plans have been mooted to expand regasification capacity and to better integrate supply across the archipelago. However, delays in critical components such as a global shortage of heavy-duty gas turbines, threaten to slow the commissioning of new LNG-fired power projects.

These structural shifts carry economic and fiscal implications. As such, LNG could increase electricity generation costs by 11–24% over the medium term. In addition, should global LNG prices remain volatile, the burden may fall both on consumers and the public purse.

In sum, 2026 appears set to be a liminal year for the Philippines: a hinge between hope and caution.

• 6.2 Electricity Production & Renewables

As the Department of Energy (DOE) and private developers ready to move into 2026, the electricity-generation and renewables sector of the Philippines appears poised for a decisive phase of expansion, albeit one that will test the country's capacity for infrastructure delivery and grid management.



The foundations for this momentum were laid in 2024, when the Philippines installed 794.34 MW of new renewable capacity, thereby exceeding the combined additions of the previous three years. DOE data suggest that by 2025–26, the bulk of new capacity will continue to come from renewables: approximately 4,232 MW of the 5,632 MW expected to come online by end-2025 was slated to be clean energy (mainly solar with some wind), with only the remainder drawn from conventional sources.

Looking to 2026, several large-scale projects are slated for completion. Meanwhile, the pipelines of committed projects compiled by DOE show roughly 19,190 MW of capacity between 2025 and 2030, of which over 11,600 MW is renewable; a clear signal that clean energy will remain at the heart of the power-sector expansion for Manila.

Such growth comes at a critical moment: electricity demand is rising sharply, fueled by economic recovery, infrastructure investment and growing

data-centre deployment.

If executed successfully, the renewables surge could aid the Philippines in narrowing its dependence on coal and imported fossil fuels, while pushing toward a goal of 35% renewable share by 2030.

That said, 2026 will also be a stress test. The grid will need to accommodate a growing share of variable generation at scale, requiring upgrades such as energy-storage systems and more flexible dispatch. The country must avoid bottlenecks in permitting, financing or transmission build-out that could stall newly commissioned plants.