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SPECIAL POINTS OF INTEREST

PH ECONOMIC REVIEW & OUTLOOK: Political risk shadows 2026 as growth slows, confidence frays

January 05, 2026 | Ruelle Castro | Malaya Business Insight

The political risk unleashed by anomalous flood-control projects will continue to weigh on the Philippine economy into 2026, the UK-based Pantheon Macroeconomics said, warning that growth is already constrained by weakening household demand and private investment.

That drag was laid bare in the third quarter, when gross domestic product growth slowed sharply to 4 percent—a result that coincided with the escalation of corruption investigations tied to public works.

The slowdown forced Pantheon's chief emerging Asia economist, Miguel Chanco, to cut his 2025 growth forecast to 4.9 percent and lower the 2026 outlook to 5 percent, both well below the government's 5.5–6.5 percent target.

Economic managers have since acknowledged the shift. Department of Economy Planning and Development (DEPDev) Secretary Arsenio Balisacan said early in December that full-year growth may land at around 5 percent, retreating from earlier expectations.

Fiscal restraint and its spillover

A key contributor to the third-quarter slowdown was sharply reduced government spending. Stricter validation of public works and tighter disbursement rules led to a contraction in public construction, delaying billings and dampening business appetite.

Japanese brokerage Nomura Securities Co., Ltd. warned that the unintended consequences of fiscal tightening will spill over into the first half of 2026, broadening from household consumption to private investment.

The brokerage said it expects growth to remain subdued in the first half before rebounding in the second, when catch-up spending takes hold. Even so, it has lowered its 2026 growth forecast to 5.3 percent, below the government's 6–7 percent target set by the Development Budget Coordination Committee.

How optimism unraveled

The closing weeks of 2025 stand in stark contrast to how the year began. After posting 5.6 percent growth in 2024—among the fastest in Southeast Asia—optimism was fueled by election-related spending and reform measures, including CREATE MORE and the Capital Markets Efficiency Promotion Act.

That momentum was interrupted by external and domestic shocks. A shift in US trade policy left the Philippines facing a 19 percent tariff rate after negotiations, while geopolitical tensions in the Middle East added uncertainty. By mid-year, the government trimmed its growth target.

The deeper rupture came when investigations into the so-called "ghost" or nonexistent flood-control projects gained momentum. Licenses of nine construction firms were revoked, charges were filed against executives and government officials, and authorities began tracking an estimated P100 billion to P150 billion in assets linked to the anomaly. The Anti-Money Laundering Council has frozen P20.3 billion, while additional assets have been surrendered or recovered through auctions.

Public protests followed, reinforcing perceptions of institutional decay and governance failure. *[Cont. page 2]*

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Some indicators steady

Not all indicators deteriorated. Inflation remained benign, easing to 1.6 percent in November and averaging the same level year to date.

This gave the Bangko Sentral ng Pilipinas (BSP) room to cut policy rates for the fifth time this year, bringing the benchmark rate to 4.50 percent—a cumulative two-percentage-point reduction from the 2024 peak.

Employment continued to expand, though not fast enough to absorb new entrants to the labor force. Unemployment stood at 5 percent in October, equivalent to 2.54 million Filipinos.

Remittances remained resilient. Cash remittances reached $29.2 billion in the first ten months of the year, up 3.2 percent from a year earlier. Manufacturers, meanwhile, reported their strongest confidence in future output since late 2024, citing new projects and expected demand.

Foreign investors have also not entirely retreated. The Philippine Economic Zone Authority approved P260.9 billion in investments in 2025, exceeding its target by nearly 22 percent.

2026: growth with conditions

Economists at the Philippine Institute for Development Studies projected 5.3 percent growth in 2026, broadly aligned with private forecasts. But they cautioned that the binding constraint is no longer inflation or liquidity.

“The true bottleneck lies in confidence,” they said, pointing to erosion in governance credibility, uneven enforcement of the law, and recurring corruption scandals that dominate public discourse.

They argued that restoring momentum requires demonstrable accountability, not policy slogans. Investor confidence, they said, depends on visible justice, evenhanded enforcement, and integrity in public service.

Michael Ricafort, chief economist at Rizal Commercial Banking Corp., echoed that view, saying credible anti-corruption action is the missing element needed to draw investors back from the sidelines.

Reforms, not rhetoric

PIDS researchers described the current period as a “rare window opportunity,” with sound macroeconomic fundamentals still intact. But without institutional reforms—particularly in education, capital markets, and regulatory coordination—the economy risks settling into mediocre growth.

Economists at De La Salle University went further, calling for reindustrialization to lift productivity and sustain growth above 6 percent. Without a credible industrial strategy and realistic fiscal management, they warned, the economy will remain trapped in underperformance.

Politics as overhang

Even as monetary easing and higher fiscal spending offer support, political risk looms large.

UnionBank said markets will focus on whether accountability in the infrastructure scandal leads to credible convictions and lasting reforms. “Investors will watch closely,” chief economist Ruben Carlo Asuncion said.

Astro del Castillo of First Grade Financing warned that political uncertainty could intensify in 2026, including the potential revival of impeachment proceedings once constitutional restrictions lapse.

“Investors dislike persistent uncertainty,” he said, noting that unresolved trade risks and proposed US measures targeting outsourcing could further complicate the outlook.

A longtime market participant who requested anonymity said he has cut exposure to Philippine equities, citing political friction and weak foreign investor confidence. “The environment feels chaotic,” he said.

The test ahead

Taken together, the outlook for 2026 is neither collapse nor rebound. It is a test.

Macroeconomic buffers remain intact. Inflation is tame. Liquidity is ample. But confidence—in institutions, enforcement and governance—is fragile.

Whether growth accelerates or stalls will hinge less on forecasts than on credibility. For markets and households alike, 2026 will measure not the promise of reform, but whether the state can finally prove it.

Sourcehttps://malaya.com.ph/business/business-news/ph-economic-review-outlook-political-risk-shadows-2026-as-growth-slows-confidence-frays/

Electronics exemption from 19% US tariff seen limiting GDP impact

January 04, 2026 | Kenneth Christiane L. Basilio | BusinessWorld


REUTERS

ECONOMIC PLANNERS said the 19% US tariff on Philippine exports could trim gross domestic product (GDP) growth by about 0.1% if the exemption on electronics is maintained.

The Department of Economy, Planning, and Development (DEPDev) said the US tariff impact was about 0.1211% of GDP — equivalent to about $489.6 million, according to the results of a simulation exercise submitted to a House of Representatives committee, a copy of which was obtained by *BusinessWorld*.

The impact could rise slightly to 0.1236%, or $508.9 million if tariff exemptions on electronics are removed.

"The estimated negative impact on real GDP is for the immediate term only and may turn positive over the medium term," DEPDev said in a paper.

The US began imposing a 19% tariff on Philippine goods starting Aug. 7 as part of President Donald J. Trump's drive to narrow his country's trade deficit and boost domestic manufacturing.

The impact on Philippine GDP comes at a time when the economy is being dragged down by weak infrastructure spending.

Growth slowed to 4% in the third quarter, a four-year low that is likely to cause the government to miss its 5.5%–6.5% full-year target.

The Philippine Tariff Commission (TC) described the economy as "consumption-driven" and "services-oriented," partly sparing it from shifts in global trade.

"A significant portion of its economy is not directly dependent on imports, and the impact of the additional tariff on Philippine exports would be tempered," it said in a separate report, a copy of which was also obtained by *BusinessWorld*.

Economists said the Philippines should diversify its trade markets to shield the economy. The Philippines is currently seeking to forge free trade agreements (FTAs) with Canada and the European Union.

Authorities should pursue trade deals with wealthier countries in Asia, the Middle East and Europe, Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said, while maximizing opportunities from existing FTAs.

"To turn a near-term hit into a medium-term gain, the Philippines needs to diversify export markets, move up the value chain and speed up investment facilitation so firms can reconfigure supply chains," John Paolo R. Rivera, a senior research fellow at the Philippine Institute for Development Studies, said via Viber.

"Securing trade preferences, improving logistics and power costs and supporting exporters' productivity will be crucial so tariff pressure accelerates upgrading rather than erodes competitiveness," he said.

DEPDev said the government is negotiating with the US to "preserve domestic interest while addressing trade concerns." Exemptions to the tariff policy currently cover selected agricultural goods and electronics, the Philippines' top exports to the US.

"Even with the negative impact, gains in exports to the US are likely to be realized particularly for sectors that are exempt from the US retaliatory tariffs," it said, citing transport equipment, wood products, metals and mineral products.

But it warned that if Washington were to remove current exemptions on Philippine products, it could trigger a decline in exports.

The TC said the Philippines posted a $2.38-billion trade surplus with the US from 2022 to 2024.

"The US was the Philippines' top export market and fourth most important source of imports," it said.

It said the 19% tariff could raise the cost of Philippine goods to US consumers by $1.7 billion, making them more expensive for US buyers and potentially dampening demand and export sales for manufacturers. *[Cont. page 4]*

Electronics exemption from 19% US tariff seen limiting GDP impact

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Talks between the Philippines and the US on a reciprocal import deal are still ongoing. In July, Mr. Trump said the Philippines will open its markets to the US and implement zero tariffs on US goods like soybeans, wheat and pharmaceuticals.

The TC said US wheat is subject to an average 2.6% most-favored-nation (MFN) tariff rate, while soybeans face 0.96%, medicines 1.95% and automobiles 27.64%.

Goods the US wants exempted from Philippine tariffs accounted for 16% of total imports from the US, it said.

"The proposal to decrease the MFN tariff rate on subject articles to 0% is estimated to reduce tariff collections by P5.73 billion for 2026," the TC said. The Department of Finance has said that foregone revenue from such a zero-tariff scheme could range between P3 billion and P6 billion.

The government should strengthen its enforcement of value-added tax and excise tax collections to help offset the revenue foregone from zero-tariff treatment on selected US goods, Mr. Rivera said.

"Over time, higher downstream activity — like cheaper inputs boosting manufacturing, health access, and exports — can recoup revenues, provided reforms are paired with disciplined spending and targeted, time-bound incentives," he said.

Source: https://www.bworldonline.com/economy/2026/01/04/722204/electronics-exemption-from-19-us-tariff-seen-limiting-gdp-impact/

Local factory ends 2025 with slight gains despite export weakness

January 02, 2026 | Ricardo M. Austria | Manila Bulletin

Philippine manufacturing activity eked out a marginal expansion in December as domestic demand recovered, providing reprieve for the sector battered by a months-long downturn and an escalating corruption probe into infrastructure projects.

The S&P Global manufacturing purchasing managers' index rose to 50.2 in the final month of last year from 47.4 in November, according to a report released on Friday, January 2.

While the reading sits just above the 50-point threshold that separates growth from contraction, it marks the first improvement in operating conditions since August. The rebound follows November's reading, which represented the sharpest deterioration in the sector's health in more than four years.

The recovery was driven primarily by a renewed intake of new work, ending a three-month streak of declining orders.

S&P Global noted that while the pace of growth was modest, it was the most pronounced since April. This domestic resilience helped offset a continued slump in foreign appetite for Philippine goods. The seasonally adjusted export orders index fell further into contraction territory, posting its steepest decline in 15 months as global demand softened.

Despite the uptick in orders, the manufacturing heartland continues to face structural bottlenecks. Factory output remained in contraction for a fourth consecutive month—the longest such losing streak since 2021—as firms struggled to ramp up production lines fast enough to match the new flow of requests.

Logistics hurdles also persisted, with manufacturers reporting longer lead times for raw materials due to year-end port congestion and disruptive weather patterns.

The mismatch between rising orders and stagnant production led to a buildup in backlogs, prompting some firms to resume purchasing activity for the first time in a quarter.

While the labor market remained under pressure, the rate of job losses slowed significantly from November. Recent data from the Philippine Statistics Authority showed the national unemployment rate stood at five percent in October, with 2.54 million Filipinos out of work.

Price pressures showed signs of firming, though they remain within manageable levels. Manufacturers reported higher *raw material costs and sought to pass those expenses on to consumers, leading to a pickup in output price inflation.*

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Local factory ends 2025 with slight gains despite export weakness

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Even so, the rise in selling prices remains below long-term averages. This aligns with broader cooling in the economy; headline inflation averaged 1.6 percent through the first 11 months of 2025, comfortably below the central bank's target range of two percent to four percent.

Business confidence for the year ahead remains positive, supported by expectations of new product launches and the commencement of delayed projects. However, the degree of optimism dipped slightly from a one-year high reached in November. Economists warned that the recovery remains fragile and heavily dependent on the domestic market.

"The improvement was tepid across the sector, and its sustainability will largely depend on whether demand can be maintained and further bolstered," said Maryam Baluch, an economist at S&P Global.

With export markets showing persistent weakness, the Philippine industrial outlook is increasingly tethered to the government's ability to navigate political uncertainty and maintain internal spending momentum.

Source: https://mb.com.ph/2026/01/02/local-factory-ends-2025-with-slight-gains-despite-export-weakness

IMF to BSP: Track bank manufacturing loans

January 01, 2026 | Reine Juvierre S. Alberto | BusinessMirror

THE Bangko Sentral ng Pilipinas (BSP) should closely monitor banks' exposure to the manufacturing sector, as weak corporate earnings and global trade uncertainties could pose risks to the Philippine financial system, according to the International Monetary Fund (IMF).

In its latest country report following the 2025 Article IV consultations, the IMF flagged the manufacturing sector, noting that earnings have remained "weak."

Bank loans to manufacturing, as well as wholesale and retail, account for about 19 percent of domestic loans as of the end of August 2025.

The IMF warned that these loans could be affected by adverse global trade developments, making banks' exposure to these sectors a priority for monitoring.

Nonbank financial institutions (NBFIs), some of which are not supervised by the BSP, should also be closely monitored, according to the IMF.

Although NBFIs are relatively small, these entities have expanded lending activities to real estate, consumer loans and micro, small and medium-sized enterprises.

At the same time, the IMF said that commercial and residential vacancy rates remain persistently high in some regions and market segments.

These were attributed to still-elevated mortgage rates, oversupply from the prepandemic construction boom and the exit of Philippine offshore gaming operators in Metro Manila.

Despite these, the IMF said that residential property prices and loan growth have remained resilient, even as the non-performing loan ratio for residential real estate stood at 6.4 percent as of end-June 2025.

Moreover, the BSP should also look out for household debt as this is driven by real estate loans, rapid expansion in bank credit cards and salary loans and broader access to credit through NBFIs and digital finance platforms, given the low household savings rate.

Banks' exposure to the public sector has also increased since the pandemic. "Banks' interconnectedness with the corporate sector, including through complex conglomerate structures, may also expose the financial system to risks," the IMF added.

While the share of firms with low debt-servicing capacity has declined, it remains higher than prepandemic levels, the IMF noted.

Image credits: UMBLEEDEE | DREAMSTIME.COM

Source: https://businessmirror.com.ph/2026/01/01/imf-to-bsp-track-bank-manufacturing-loans/

PHL skills gap most apparent in foreign languages, machinery operation — ADB

January 04, 2026 | Aubrey Rose A. Inosante | BusinessWorld

BW FILE PHOTO

FILIPINO WORKERS of either gender assessed themselves most deficient in language skills and operating machinery, according to a study by the Asian Development Bank (ADB).

In its "Harnessing Survey Data to Shape the Future of Work" report, the ADB said according to their self-assessments, Filipino workers considered reading, writing and basic numeracy to be closely aligned with job requirements, though computer or software skills and communication skills were aligned to a lesser extent.

According to the skills self-assessment against job requirements, the ADB found that 39% of surveyed men and 27.3% of women considered themselves underskilled in foreign languages, rating their proficiency as below standard or needing improvement.

For men, the other major skills gaps were in operating machinery and equipment (26.5%), project management or organizational skills (23.6%), computer or software skills (20.2%), and teamwork or leadership skills (19.3%).

For women, operating machinery and equipment (25.4%), project management or organizational skills (23.7%), computer or software skills (17.6%), and teamwork or leadership (16.8%) were the other leading self-reported skills gaps.

The ADB noted that while some skill areas showed gender differences, overall trends in alignment and perceived gaps were broadly similar for men and women.

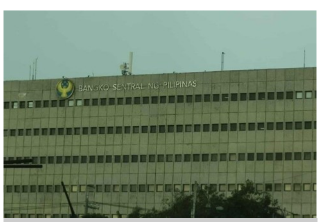
"In the Philippines, men were more engaged than women in physically demanding manual tasks such as lifting, driving, and using heavy machinery, while gender differences were narrower in precision work and prolonged physical activity," the bank said.

Overall, the Philippines showed the lowest overall skills match at 71.8% for both sexes, next to Bhutan (92.6%) and Georgia (78.8%).

Source: https://www.bworldonline.com/economy/2026/01/04/722201/phl-skills-gap-most-apparent-in-foreign-languages-machinery-operation-adb/

'GenAI reshaping IT-BPM industry'

January 04, 2026 | Keisha Ta-Asan | The Philippine Star


Bangko Sentral ng Pilipinas.
Philstar.com / Irra Lising

BSP warns of urgent need for reskilling

MANILA, Philippines — Generative artificial intelligence (GenAI) is expected to augment rather than displace jobs in the Philippine information technology and business process management (IT-BPM) industry in the near term, according to a report by the Bangko Sentral ng Pilipinas (BSP).

In an economic newsletter, the BSP said findings from consultation meetings with key stakeholders indicate that GenAI is reshaping business operations while underscoring the urgent need for workforce reskilling and upskilling to keep pace with rapidly evolving, AI-driven demands.

"Amid fears of job replacement and obsolescence, GenAI should be viewed as a tool and a partner that offers infinite potential in enhancing the efficiency of current systems and streamlining processes, providing opportunities for employees and businesses to move up the value chain," the BSP said.

The IT-BPM industry remains a major pillar of the Philippine economy. As of end-2024, the country held the second-largest share in the global IT-BPM market at 18 percent, behind India's 40 percent share.

The sector continues to be a key source of foreign exchange, generating $32 billion in revenues in 2024, equivalent to 6.9 percent of gross domestic product, comparable to the $34.5 billion in cash remittances from overseas Filipinos or 7.5 percent of GDP.

The earnings of the Philippine business process outsourcing (BPO) sector also grew by 7.7 percent to around $32 billion in 2024 from $29.7 billion in 2023, while the IT-BPM workforce expanded by seven percent to 1.8 million full-time employees. *[Cont. page 7]*

'GenAI reshaping IT-BPM industry'

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Of the total, 1.6 million workers or 88.5 percent were employed in contact center and business process services. In the first quarter of 2025, BPO earnings rose by 1.3 percent year-on-year to $7.2 billion.

Amid these gains, AI adoption is becoming increasingly widespread. A survey by the IT and Business Process Association of the Philippines (IBPAP) showed that 67 percent of IT-BPM member firms have incorporated AI tools into their operations. These include robotic process automation, AI-powered analytics, interactive chatbots and advanced voice systems that assist agents by summarizing interactions and recommending optimal responses.

Still, concerns persist over potential job displacement, particularly for roles reliant on repetitive or routinary tasks. But industry data suggest a more nuanced impact.

Another IBPAP survey in the fourth quarter of 2024 found that 29 percent of firms using AI tools did not experience any shift in work structure, implying that AI was used mainly for job augmentation.

While eight percent of firms reported a decrease in employment due to AI adoption, 13 percent recorded job gains driven by new roles such as AI fine-tuning, data annotation and GenAI content creation.

Despite the opportunities, challenges remain. The BSP noted a shortage of skilled professionals, particularly those with expertise in GenAI and data analytics, alongside high implementation costs, integration issues with legacy systems, data privacy concerns and regulatory uncertainty.

According to the Technical Education and Skills Development Authority, the IT-BPM sector had a supply gap of over one million unfilled jobs as of May 2025, mainly for specialized roles such as web developers, programmers, call center agents and virtual assistants.

While full-scale GenAI adoption is not expected within the next three years due to scaling and regulatory challenges, the BSP said GenAI should be seen as a partner that can enhance efficiency and streamline processes.

Proper investments in technology and human capital will be critical in allowing the IT-BPM industry to move up the value chain amid rapid technological change.

Source: https://www.philstar.com/business/2026/01/04/2498524/genai-reshaping-it-bpm-industry

PCC launches online case reporting system

January 06, 2026 | Louella Desiderio | The Philippine Star

MANILA, Philippines — The Philippine Competition Commission (PCC) has launched an online system to enable citizens to directly report anti-competitive practices.

In a statement, the antitrust agency said the online case reporting system was developed with support from the Korea International Cooperation Agency.

The public can access the online case reporting system at https://ccms.phcc.gov.ph
Through the online system, the aim is to streamline the reporting process by allowing users to upload documents and submit cases online.

In a statement, the antitrust agency said the online case reporting system was developed with support from the Korea International Cooperation Agency.

STAR / File

Previously, reporting anti-competitive practices required multiple steps and staff interventions.

"This system empowers the public to take part in safeguarding competition. By making reporting faster, simpler and more secure, we are strengthening our collective effort to ensure fair markets for all," PCC chairperson Michael Aguinaldo said.

The initiative reflects the PCC's commitment to promote transparency, efficiency and consumer welfare.

The PCC is mandated to enforce the Philippine Competition Act (PCA), the country's primary competition policy.

Under the PCA, the aim is to protect consumer well-being and preserve the efficiency of competition in the marketplace. The PCA prohibits anti competitive practices, abuse of dominance and anti competitive mergers and acquisitions.

Source: https://www.philstar.com/business/2026/01/06/2498995/pcc-launches-online-case-reporting-system

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