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ECONOMIC AND MARKET UPDATE

The Philippine Economy at a Glance

GROSS DOMESTIC PRODUCT	FOREIGN EXCHANGE	INFLATION RATE	UNEMPLOYMENT RATE	BSP POLICY RATES	CREDIT RATINGS
4.40% Full-year 2025	January 2026 **P58.86/$** (0.03% weaker FTM) (0.03% weaker YTD)	**1.7% (2025)** **(based on 2018 prices)**	**4.4%** **(NOVEMBER 2025)**	**5.00%** (lending rate) **4.50%** (borrowing rate) **4.50%** (overnight deposit)	**BBB+** (Standard and Poor's) **BBB** (Fitch Ratings) **Baa2** (Moody's Investor)

Macroeconomic Updates

Philippine economy faces Q4 slowdown. In the final quarter of 2025, the Philippine economy experienced a slowdown to 3% GDP growth, down from a revised 3.9% in Q3. This deceleration, fueled by typhoon damage and a strategic pause in infrastructure spending, resulted in a full-year growth rate of 4.4%, short of government targets. Despite these headwinds, officials maintain that ongoing governance reviews of major projects will lead to more efficient and sustainable long-term execution.

Inflation to stay within target range. The BSP expects inflation to remain within the target range despite early-year price pressures, noting that January inflation could settle at 1.4%–2.2% following December's 1.8%. While higher food and fuel prices, excise tax hikes, and peso depreciation pose upside risks, easing electricity costs and stabilizing vegetable prices may help temper inflation.

Weaker growth strengthens case for BSP rate cut. Weaker Q4 GDP growth has strengthened the case for a near-term rate cut by the BSP, with analysts widely expecting a 25-basis-point reduction at the February 19 policy meeting. Governor Remolona stressed that inflation remains the central mandate and will guide the decision, while the central bank evaluates incoming data on growth, prices, and external conditions.

Philippines sees narrower trade deficit in December. In December 2025, the Philippines' trade deficit narrowed by 15% to $3.254 billion as export growth significantly outperformed imports. Driven by strong demand for electronics, bananas, gold, and machinery, exports surged 23.3% to $6.992 billion. Meanwhile, imports grew more modestly at 7.1% to $10.517 billion, led by electronics and fuel, with China remaining the primary supplier. Overall trade value rose 13% to $17.510 billion, signaling robust industrial activity and a strengthening external economic position.

Weaker inflows push Philippines' BoP into deficit. The Philippines recorded a $5.7 billion balance of payments (BOP) deficit in 2025, a sharp reversal from 2024's $609 million surplus. December contributed an $827 million deficit due to year-end debt payments and profit repatriation. This annual decline was driven by weakened capital inflows, lower FDI, and portfolio outflows, though the final figure remained within BSP projections. For 2026, the BSP anticipates a slightly wider $5.9 billion deficit while maintaining stable foreign reserves.

Foreign investments plunge further. In October 2025, Philippine foreign direct investment (FDI) net inflows plummeted by 39.8% year on year to $642 million, largely due to a sharp 50.7% drop in debt instrument investments as foreign parent companies reduced loans to local affiliates. While this figure reflects a month-on-month recovery from September's five-year low, the overall decline was fueled by investor caution surrounding domestic political uncertainty and global trade tensions. Despite these headwinds, modest growth in reinvested earnings and equity capital from Japan, the U.S., and Singapore provided a slight buffer to the downward trend.

Peso starts 2026 slightly weaker. The Philippine peso closed at P58.86 per dollar on January 30, slightly weaker than the previous month's close of P58.79. The peso's performance reflected a mix of global and domestic factors, with a weaker U.S. dollar and positive market sentiment helping to cushion the decline, while softer Q4 GDP growth and cautious signals from the U.S. Federal Reserve limited any recovery.

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