AMRO Country Report
ACR/25-10

AMRO Annual Consultation Report

The Philippines - 2025

ASEAN+3 Macroeconomic Research Office (AMRO)

November 2025

Acknowledgments

1. This Annual Consultation Report on the Philippines has been prepared in accordance with the functions of AMRO to monitor and assess the macroeconomic status and financial soundness of its members; identify relevant risks and vulnerabilities; report these to member authorities; and if requested, assist them in mitigating these risks through the timely formulation of policy recommendations. This is being done in accordance with Article 3 (a) and (b) of the AMRO Agreement.

2. This Report is drafted on the basis of the Annual Consultation Visit of AMRO to the Philippines from September 2 to 19, 2025 (Article 5 (b) of the AMRO Agreement). The AMRO Mission team was headed by Dr. Jinho Choi, Deputy Group Head and Principal Economist. Members included Dr. Heung Chun (Andrew) Tsang, Desk Economist on the Philippines; Mr. Shunsuke Endo, Back-up Economist; Ms. Chunyu Yang, Fiscal Specialist; Mr. Chiang Yong (Edmond) Choo, Financial Market Specialist; Ms. Zhan (Bella) Guo, Property Market Specialist; and Mr. Kuchsa Dy, Banking Sector Specialist. AMRO Director Mr. Yasuto Watanabe and Chief Economist Dr. Dong He also participated in key policy meetings with the authorities. This AMRO Annual Consultation Report on the Philippines for 2025 was peer-reviewed by a group of economists from AMRO's Country Surveillance, Financial Surveillance, and Fiscal Surveillance teams; endorsed by the Policy and Review Group; and approved by Dr. Dong He, AMRO Chief Economist.

3. The analysis in this Report is based on information available up to November 7, 2025.

4. By making any designation of or reference to a particular territory or geographical area, or by using the term "member" or "country" in this Report, AMRO does not intend to make any judgments as to the legal or other status of any territory or area.

5. On behalf of AMRO, the Mission team wishes to thank the Philippine authorities for their comments on this Report, as well as their excellent meeting arrangements and hospitality during our visit.

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Executive Summary

Highlights

1. Growth of the Philippines' economy has been steady amid global trade tensions, supported by a domestically oriented economic structure and diversified export markets. Steady domestic consumption and a stable labor market continue to drive growth, while inflation has eased below the target range of Bangko Sentral ng Pilipinas (BSP). The near-term macroeconomic and financial outlook remains stable, underpinned by firm domestic demand and solid financial soundness indicators. However, sustaining long-term growth will require refining the growth strategy by upgrading services, and boosting private investment.

Outlook

2. The economy will continue to expand at a rate of above 5 percent growth rate, slower than the pre-COVID trend. Real GDP growth is projected at 5.2 percent in 2025 and 5.3 percent in 2026, below the 5.7 percent growth recorded in 2024. Private consumption is expected to grow steadily. Private investment and exports face headwinds from external uncertainties due to the US tariff policy, while public investment will be dampened by flood control project controversies. Additionally, the US tariff impact on goods exports would be negative and more pronounced in 2026, while in 2025, it will be partly offset by front-loaded export orders. However, the adverse effects on investment and exports would gradually phase out in H2 2026.

3. Inflation is expected to return to the BSP's target range. CPI inflation is projected at 1.7 percent in 2025, rising to 3.2 percent in 2026. The relatively low headline inflation reflects softer supply-side pressures, such as moderating food and global commodity prices, as well as the sustained effects of administrative measures, including tariff cuts on rice and the streamlining of nontariff barriers. Meanwhile, demand-side factors are expected to continue to steadily contribute to inflation.

4. Despite the current account remaining in deficit, the external position stayed adequate. The deficit persists but has been offset by sustained financial inflows. Looking ahead, the current account deficit is expected to persist, while the financial account should continue to register net inflows on the back of the country's stable economic outlook. The peso depreciated as the U.S.–Philippines interest rate differential narrowed, and gross international reserves remain adequate.

5. Monetary policy has entered an easing cycle, while banking sector performance has been solid. Since August 2024, the BSP has implemented seven rate cuts, bringing the policy rate down to 4.75 percent. For 2026, however, the inflation is expected to be well-within the BSP's target range of 2-4 percent. Bank lending has accelerated, especially in household loans, while nonperforming loan (NPL) ratios and bank profitability have remained stable with adequate liquidity and capital buffers.

6. Fiscal consolidation continues but is progressing more slowly than planned. The fiscal deficit is budgeted to narrow slightly to 5.5 percent of GDP in 2025 with moderate revenue growth. Medium-term consolidation is slower due to lower revenue ratios and higher expenditures to support growth and infrastructure.

Risks

7. While the near-term growth outlook remains stable, it is clouded by external uncertainties, and structural challenges pose greater obstacles to long-term growth potential. Downside risks stem from aggressive US protectionism, tighter immigration policies for migrant workers, slower growth in key trading partners, more volatile global financial conditions, and potential inflationary pressures. Structural challenges—such as prolonged scarring from the COVID-19 pandemic, insufficient infrastructure development, and limited manufacturing capacity—continue to constrain the country's potential growth over the longer term.

Policy Recommendations

8. Fiscal, monetary and financial policies are broadly well-aligned to sustain macroeconomic stability and growth, and further policy considerations include:

- **Fiscal consolidation** should be pursued as planned, while being balanced with development priorities, particularly infrastructure and human investment.
- The BSP should continue **normalizing monetary policy** with cautious rate adjustments, taking into account the near-zero output gap and potential supply shocks.
- On financial stability, **forward-looking risk management** is vital, especially for rapid household loan growth, vulnerable corporate segments, and rising securities exposure.

9. The Philippines should enhance monetary policy transmission to strengthen the effectiveness of monetary policy in supporting growth. Policy recommendations include deepening liquidity and broadening the investor base in long-term bond markets, as well as enhancing interest rate pass-through, particularly for consumer and SME lending, by promoting broader use of shared credit data.

10. The government should refine the growth strategy, prioritizing the upgrading of sectors with comparative advantages while improving the overall business environment. Given that the existing strategy lacks clear sectoral priority, the authorities need to streamline targets and strengthen the performance evaluation framework for public spending. Emphasis should be placed on strengthening digital and infrastructure connectivity, and upskilling the workforce. These efforts should help the Philippines upgrade its services and manufacturing sectors to produce higher value-added exports.

11. The government should also crowd in private investment to ensure sustainable long-term economic growth. To address structural constraints, key policy priorities include accelerating infrastructure development, reducing legislative drag to improve the investment climate, and enhancing firms' access to long-term financing.

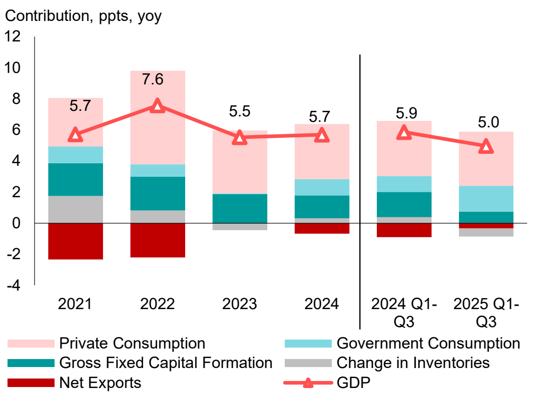
A. Recent Developments and Outlook

A.1 Real Sector Developments and Outlook

1. Growth of the Philippine economy has been steady despite heightened global trade tensions. The most immediate challenge stems from uncertainties surrounding the impact of the US reciprocal tariff measures. The direct economic impact of the 19 percent reciprocal tariffs is expected to be limited, given the country's predominantly domestically oriented economic structure and diversified export markets—goods exports account for only 15.9 percent of GDP, with just about 16.6 percent of those exports destined for the US, about 10 percent of the exports to the US are expected to be tariff-exempted.[1] However, the indirect impacts—such as weaker global demand and its spillover effects on domestic consumption and investment—could be more significant. The extent of these indirect impacts will largely depend on the growth trajectories of the Philippines' other major trading partners, including ASEAN+3 economies and the EU.

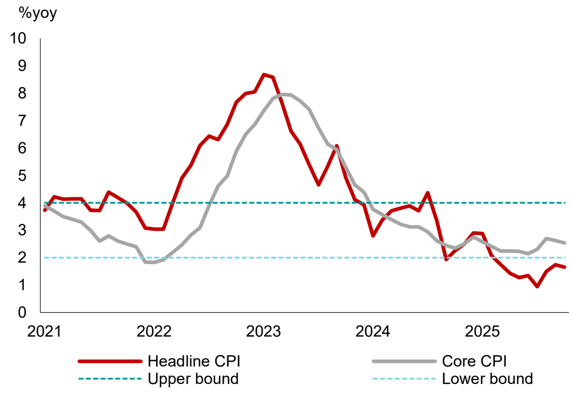
2. Economic growth in 2025 has been supported by stable domestic consumption. In Q1-Q3 2025, real GDP grew by 5.0 percent year on year (yoy), below the 5.7 percent recorded in 2024 (Figure 1). Growth was bolstered by a stable private consumption, underpinned by eased inflationary pressures and a strong labor market. However, GDP growth slowed to 4.0 percent in Q3, as household consumption was impacted by adverse weather and typhoons, and investment declined, mainly due to the suspension of public infrastructure projects amid the flood control project controversies.[2] The unemployment rate remained stable and low at 4.1 percent in first nine months of 2025, a notable improvement from the pre-pandemic 5.1 percent in 2019, although the underemployment rate persisted at double digits. However, overall growth was tempered by negative net exports and slowed private investment amid heightened external uncertainties. On the production side, the services sector was the main driver of GDP growth, particularly retail and wholesale trade and financial services.

Figure 1. Real GDP Growth by Expenditure



Source: Philippine Statistics Authority (PSA), AMRO staff calculations

Figure 2. Headline and Core Inflation



Source: PSA, AMRO staff calculations

3. Headline inflation has decelerated to a level below the Bangko Sentral ng Pilipinas' (BSP) target range of 2 - 4 percent (Figure 2). In the first ten months of 2025, the average inflation rate stood at 1.7 percent yoy, a drop from 3.2 percent in 2024. Monthly inflation was gradually slowing in 2025 before picking up since August. The slowdown was mainly driven by a moderation in supply-side pressures, including the stabilization of global commodity prices, lagged effects of tariff cuts on rice imports,[3] and the forceful monetary policy tightening in 2022-2023. Meanwhile, demand-side factors, such as stable domestic consumption and minimum wage hikes, kept core inflation hovering above 2 percent during the same period.[4]

4. Looking forward, economic growth and inflation are expected to moderate in 2025 and 2026.

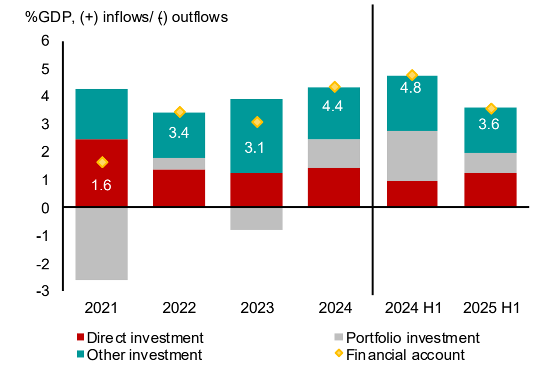
- *Real GDP is expected to grow by 5.2 percent in 2025 and 5.3 percent in 2026*, below the 5.7 percent growth recorded in 2024. Private consumption is expected to steadily grow over these two years, supported by favorable labor market conditions, lower inflation, and stable overseas remittances. However, private investment sentiment and export performance are likely to be clouded by external uncertainties arising from the new US tariff policy, while public investment will be dampened by flood control project controversies. The tariff impact on goods exports is expected to be more pronounced in 2026, while in 2025 it will be partly offset by the front-loading of export orders. However, the adverse effects on investment and exports would gradually phase out in H2 2026.

- *CPI inflation is projected at 1.7 percent in 2025, rising to 3.2 percent in 2026* in a return to the BSP's target range. The low headline inflation reflects softer supply-side pressures, such as moderating food and global commodity prices, as well as the sustained effects of administrative measures, including tariff cuts on rice and pork, increased import allowances for agricultural products, and the streamlining[5] of non-tariff barriers. Meanwhile, demand-side factors are expected to continue to steadily contribute to inflation under stable economic growth.

A.2 External Sector and the Balance of Payments

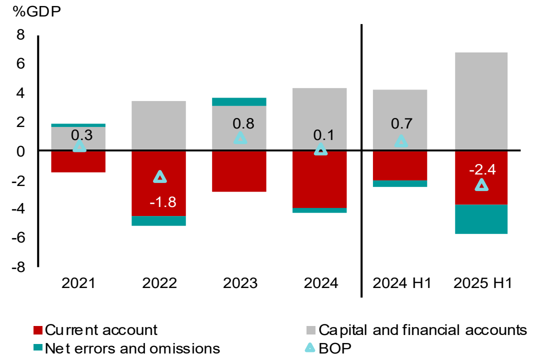
5. The current account remained in deficit, but was offset by sustained financial account inflows. In H1 2025, the current account deficit stood at 3.9 percent of GDP, broadly unchanged from 4.0 percent in 2024. The sizable goods trade deficit—driven by imports of capital and consumer goods and structural in nature[6]—was partially offset by a consistent services surplus[7] and stable remittance inflows. Meanwhile, net financial account inflows moderated to 3.6 percent of GDP in H1 2025 from 4.4 percent in 2024, mainly due to an increase in residents' overseas portfolio investments (Figure 3).[8] Put together, the balance of payment (BOP) posted a deficit of USD5.6 billion in H1 2025, equivalent to 2.4 percent of GDP and a reversal from the surplus of USD0.6 billion, or 0.1 percent of GDP, in 2024 (Figure 4). Looking ahead, the current account deficit is expected to persist, despite resilient income from services exports and remittances, alongside steady import demand and limited direct exposure to global trade headwinds. The financial account would continue to register net inflows given the country's stable economic outlook. Overall BOP balance is expected to register slight deficits in 2025 and 2026.

Figure 3. Financial Account Flows



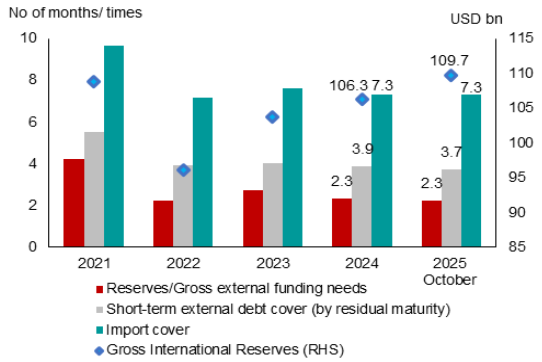
Source: BSP; AMRO staff calculations

Figure 4. Balance of Payments



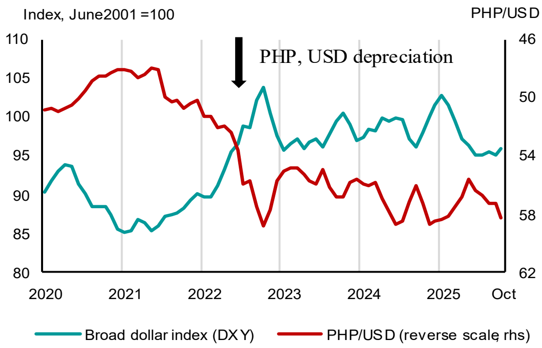
Source: BSP; AMRO staff calculations

Figure 5. International Reserves



Source: BSP; AMRO staff calculations

Figure 6. Exchange Rate Movement



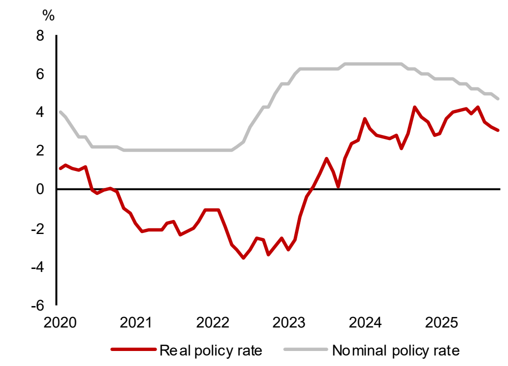
Source: BSP; AMRO staff calculations
Note: Monthly data for DXY and PHP/USD are based on averages of daily data.

6. The external position stayed adequate, while the peso exchange rate depreciated. Gross international reserves (GIR) edged up from USD106.3 billion at end-2024 to USD109.7 billion in October 2025 (Figure 5). GIR remained sufficient to cover 7.3 months of imports and 3.7 times short-term external debt based on residual maturity. Consistent with the expected BOP deficits, GIR is expected to slightly decrease in 2025 and 2026. Meanwhile, external debt increased to USD148.9 billion in Q2 2025, equivalent to 31.2 percent of GDP, from USD137.6 billion, or 29.8 percent of GDP, at end-2024, mainly attributable to higher government borrowings for infrastructure projects and increased bank borrowings for short-term financing. The peso depreciated by 1.7 percent to PHP59.0 per U.S. dollar year-to-date in October. The currency initially appreciated through May, supported by broad U.S. dollar weakness, but subsequently reversed course as the U.S.–Philippines interest rate differential narrowed and investor sentiment deteriorated following allegations of corruption in the flood-control project (Figure 6). To enhance foreign exchange (FX) operations with a more systematic approach, the BSP is developing an operational FX intervention playbook to better manage episodes of extreme volatility and ensure orderly market conditions.[9]

A.3 Monetary Condition and Financial Sector

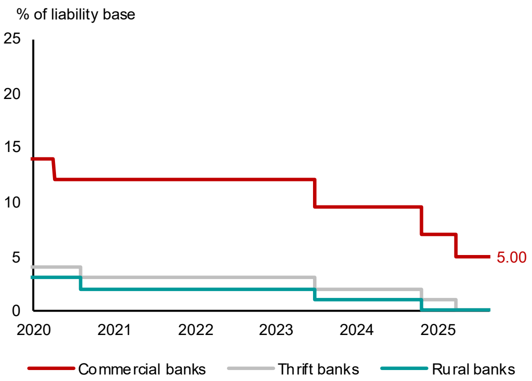
7. The BSP's policy rate has been lowered as inflationary pressures ease. The BSP implemented seven 25-basis-point rate cuts between August 2024 and October 2025, bringing the policy rate down to 4.75 percent, 175 basis points below the 6.5 percent level prior to the easing cycle (Figure 7). Despite these adjustments, the real policy rate stood at 3.05 percent as of October 2025, well above the historical average of 0.62 percent.[10] Additionally, in March 2025, the BSP reduced the reserve requirement ratio (RRR) from 7 percent to 5 percent for universal and commercial banks (Figure 8),[11] significantly lower than the 12.5 percent in early 2022, thereby injecting more liquidity into the banking system.

Figure 7. Nominal and Real Policy Rate



Source: BSP

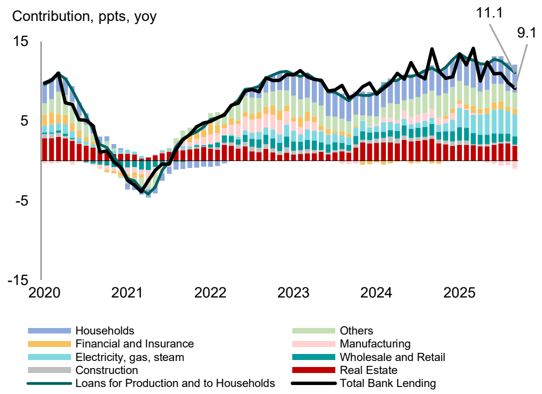
Figure 8. Reserve Requirement Ratio



Source: BSP

8. Bank lending growth accelerated amid the BSP's easing cycle, while loans to households remained strong. Total bank lending[12] grew at 11.4 percent yoy on average from January to September 2025, higher than the 11.2 percent in H2 2024, led by both corporate and household sectors, with September alone posting a 9.1 percent increase (Figure 9). Within corporate loans, those granted to electricity, gas and steam, real estate, and wholesale and retail trade have been strong, while loans to the manufacturing sector have been weak. Among households, loans excluding mortgages grew 23.5 percent from January to September 2025,[13] outpacing the 10.5 percent recorded by the corporate sector over the same period, with September alone posting a 23.0 percent rise for households versus 8.9 percent for corporates (Figure 10). The household-corporate gap was mainly driven by credit card loans taken out on the back of strong household spending, and banks' strategic shift toward higher profitability and enhanced financial inclusion.

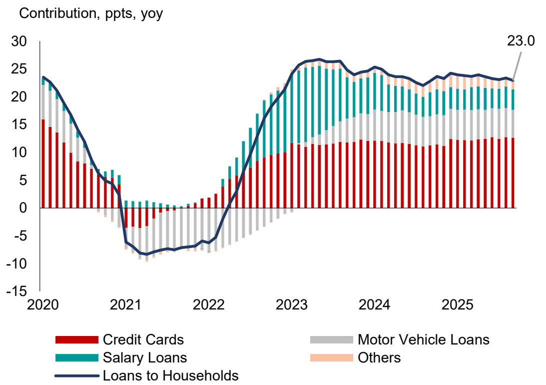
Figure 9. Bank Lending by Sector



Source: BSP; AMRO staff calculations

Note: Loans for Production and to Households refers to loans "for production by economic activity" plus "loans to individuals for consumption purposes" in the Philippine banking system, under the "Loans Outstanding for Production and Household Consumption" statistics. It accounts for approximately 90 percent of total bank lending in the statistics while the remaining 10 percent includes "under RRPs arrangement", "interbank loans", "loans to BSP", and "non-residents".

Figure 10. Contribution of Growth in Bank Lending to Households for Consumption

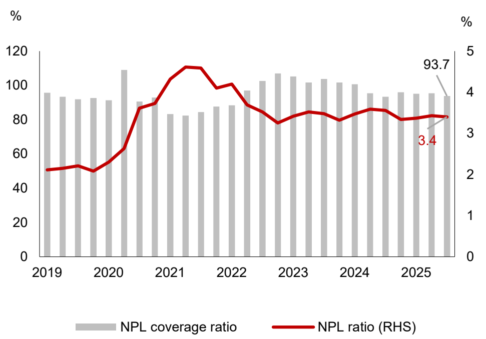


Source: BSP; AMRO staff calculations

9. Banking-sector performance has been solid. Despite accelerating loan growth, the nonperforming loan (NPL) ratio net of interbank loan receivables and the NPL coverage ratio were largely unchanged at 3.4 percent and 93.7 percent, respectively, in September 2025 (Figure 11). Meanwhile, the NPL ratio for rapidly expanding consumer loans, including mortgages, has held broadly stable at 5.3 percent.[14] Banks maintained strong profitability, supported by increasing loans, with the return on assets (ROA) and return of equity (ROE) remaining at largely the same levels as in 2024, at 1.5 percent and 11.7 percent respectively in September 2025. Liquidity buffers remained adequate, with both the liquidity coverage ratio and net stable funding ratio well above 100 percent. In the meantime, as of end Q3 2025, the banking system maintained a capital adequacy ratio of 15.8 percent on a solo basis, higher than the BSP's minimum regulatory requirement of 10 percent (Figure 12).

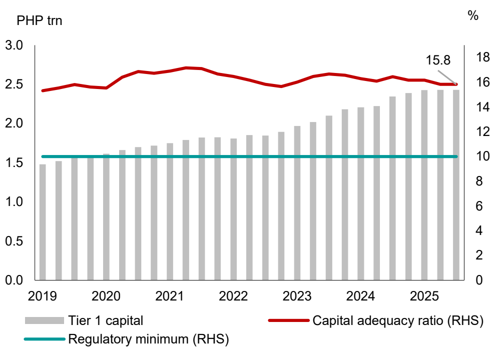
10. The property market showed mixed performance. In Q2 2025, residential property prices continued to rise, with the nationwide index increasing by 7.5 percent yoy. However, the condominium segment in Metro Manila remained under pressure from elevated vacancies and a persistent inventory overhang. Office vacancies also stayed high in Metro Manila, particularly in the Bay Area following the Philippine Offshore Gaming Operators (POGO) ban,[15] with space reconfiguration expected to take time. Major developers remained resilient and the NPL ratio for commercial real estate loans stayed at around 2 percent, although oversupply may pose financial risks to smaller developers. Residential real estate loans continued to post a high NPL ratio above 6 percent despite steady growth.

Figure 11. Banking System NPL Ratio and NPL Coverage Ratio



Source: BSP; AMRO staff calculations

Figure 12. Banking System Capital Adequacy Ratio and Tier-1 Capital



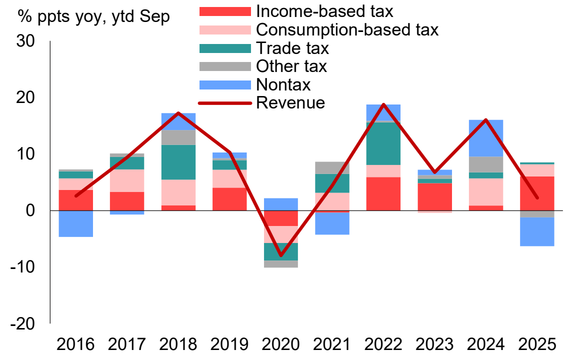
Source: BSP; IMF; AMRO staff calculations
Note: The latest available data on tier 1 capital was from Q1 2025.

A.4 Fiscal Sector

11. The fiscal deficit is budgeted to narrow slightly in 2025, with year-to-date performance broadly on track. The 2025 government budget sets the deficit at 5.5 percent of GDP, down from 5.7 percent in 2024. Revenue grew by 2.2 percent in January–September 2025 (Figure 13), moderating from 16 percent in the same period of 2024, largely due to the unwinding of last year's one-off surge in non-tax revenue. However, tax revenue rose by 8.9 percent, supported by strong collections primarily from corporate income tax (CIT), personal income tax (PIT), value-added tax (VAT), excise tax on tobacco, percentage tax on banks/financial institutions, and documentary stamp tax amid solid economic activity, despite limited gains from the legislated tax reform measures in 2025.[16] Meanwhile, expenditure increased by 5.2 percent (Figure 14), with front-loading in Q1 offset by a slowdown in Q2, partly reflecting the election-related spending ban.[17] The national government debt in September 2025 stood at 61.9 percent of GDP,[18] slightly above the end-2024 level.

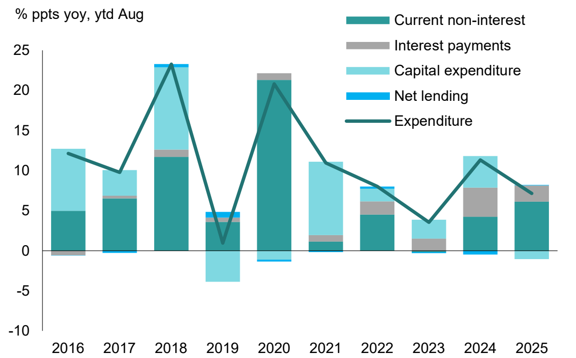
12. The authorities continued to commit to fiscal consolidation over the medium term, albeit at a slower pace. In June 2025, the Development Budget Coordination Committee (DBCC) revised the medium-term fiscal program, signaling a further slower pace of consolidation. These adjustments are reflected in the Budget of Expenditures and Sources of Financing (BESF) 2026, released in August 2025, under which the government continues to gradually narrow the fiscal deficit from 5.5 percent of GDP in 2025 to 5.3 percent in 2026,[19] and to 4.3 percent by 2028. However, the 2028 deficit target is wider than both the 3.7 percent set in December 2024 and the original Medium-Term Fiscal Framework (MTFF) goal of 3.0 percent. The slower pace of consolidation reflects a lower revenue-to-GDP ratio projected for 2027-2028 (Figure 15), alongside higher expenditure-to-GDP ratios in 2026 to better support economic growth and infrastructure spending (Figure 16).

Figure 13. Changes in Revenue



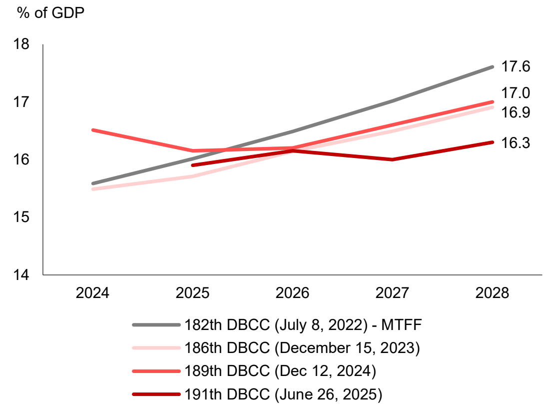
Source: Bureau of the Treasury; AMRO staff calculations

Figure 14. Changes in Expenditure



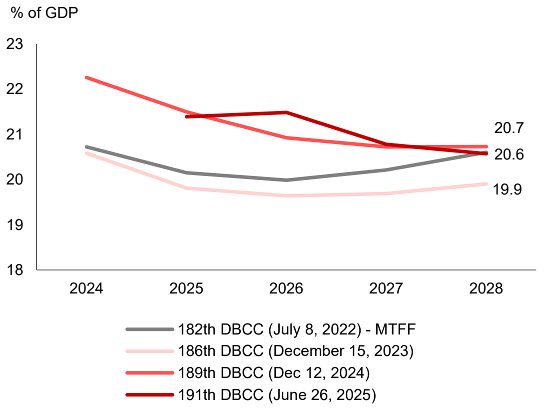
Source: Department of Budget and Management (DBM); AMRO staff calculations

Figure 15. Revenue Projection Changes



Source: DBCC

Figure 16. Expenditure Projection Changes



Source: DBCC

B. Risks, Vulnerabilities and Challenges

13. The Philippines' stable growth outlook is clouded by external uncertainties, with risks tilted to the downside, while structural challenges pose greater obstacles to long-term growth potential. Near-term growth prospects could be adversely affected by more aggressive protectionism, potential slowdowns in major trading partners, tighter-than-expected global financial conditions, as well as renewed inflationary pressures (Figure 17). Although the Philippines remains relatively resilient to external shocks in the short term, structural challenges persist as significant barriers to sustaining the country's potential growth over the medium to long term. Prolonged scarring from the COVID-19 pandemic—reflected in slower private investment recovery, gradual labor upskilling, and modest productivity growth—along with the country's insufficient infrastructure development and limited manufacturing capacity, may further constrain long-term potential. In addition, accelerating geoeconomic fragmentation, heightened political risks, and vulnerabilities to climate change could further dampen long-term growth prospects.

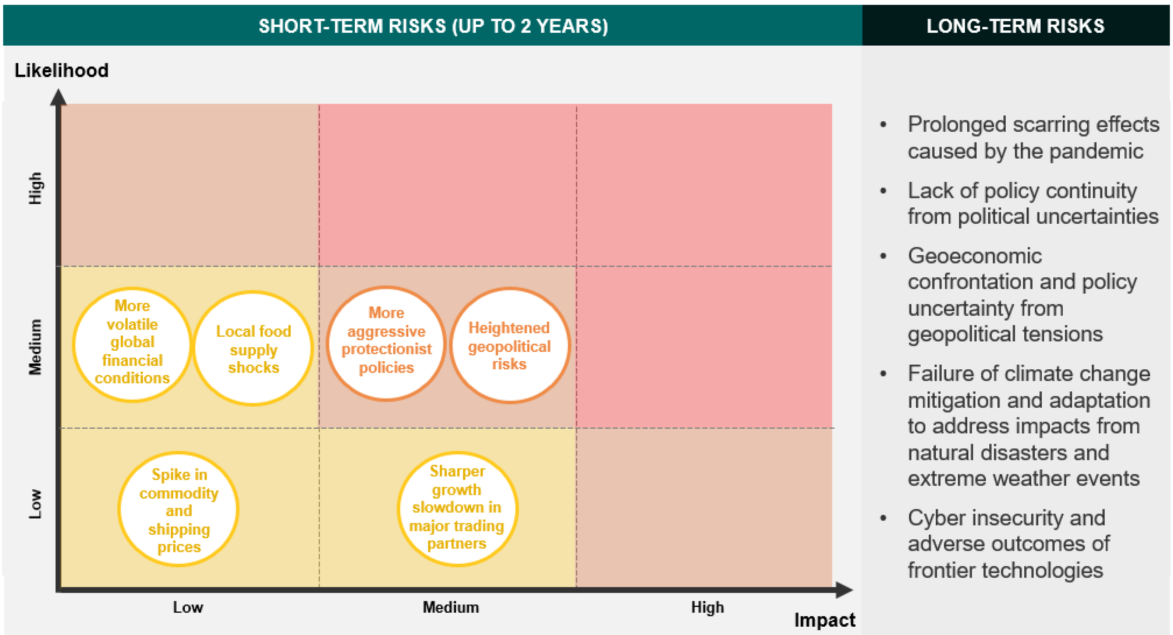
B.1 Short-term Risks to Macro-financial Outlook

14. More aggressive US protectionist policies could impede the Philippines' growth prospects. The US administration has indicated plans to impose tariffs on currently exempted sectors—such as semiconductors, which account for 31.2 percent of Philippine exports to the US—posing a significant direct impact to merchandise exports. Moreover, more aggressive protectionist measures could have indirect spillover effects. Higher US tariffs on other economies, particularly ASEAN+3 and the EU, may weaken their demand for Philippine goods and services, further dampening domestic investment and consumption.

- Under an adverse scenario[20] in which higher tariffs on China and some emerging economies, as well as on previously exempted goods such as semiconductors, would raise the Philippines' effective tariff rate from 13.1 percent to 20.9 percent, real GDP growth could slow to 5.3 percent in 2026.

- Furthermore, non-tariff protectionist measures—such as the 1-percent tax on foreign remittances under the One Big Beautiful Bill Act, the proposed Keep Call Centers in America Act, and stricter immigration policies on migrant workers—could exacerbate the adverse impact on domestic growth by further weakening private consumption.

Figure 17. The Philippines: Country Risk Map



Source: AMRO staff

15. A sharp slowdown in major trading partners could further weigh on the Philippines' growth outlook. Heightened trade tensions and other factors pose significant downside risks to global demand. In the US, higher tariffs and persistent inflationary pressures—coupled with domestic policy uncertainty—may dampen consumer sentiment and investment, while stricter immigration enforcement could disrupt labor markets. In Europe, growth prospects remain constrained by elevated energy and shipping costs resulting from ongoing geopolitical conflicts. Meanwhile, China's protracted economic adjustment and subdued consumer sentiment continue to be a drag on its growth momentum. These headwinds could exacerbate the negative impact of US tariff policies, resulting in larger negative spillovers for the Philippines.

16. More volatile global financial conditions could pressure the peso and raise government borrowing costs. Sticky U.S. inflation and policy uncertainty induced by the tariff measures have clouded the Federal Reserve's monetary policy outlook. If U.S. interest rates remain higher for longer, the resulting narrower interest rate differential could trigger a reversal of capital inflows to the Philippines—particularly in the bond market. Increased global financial market volatility may trigger a flight to safe-haven assets such as the U.S. dollar and U.S. dollar-denominated assets, further accelerating capital outflows and leading to peso depreciation with increased volatility against the dollar. In particular, the capital outflows could weaken the country's ability to finance its structural goods trade deficits. A weaker peso would raise import costs, domestic inflation, and the burden of US dollar-denominated debt, which accounted for about 78.7 percent of foreign-denominated public debt in July 2025. Moreover, if the Fed tightens again, government funding costs are likely to rise both domestically and in foreign markets, as Philippine sovereign bond yields tend to closely track U.S. Treasury yields.[21]

17. Risks to the inflation outlook are tilted to the upside, with potential renewed price pressures that could further diminish growth prospects. Although inflation in the Philippines has eased, the risk of a resurgence remains due to potential supply shocks, particularly in the energy and food sectors. Heightened geopolitical tensions in the Middle East, elevate the risk of energy price spikes, potentially fueling inflation. Domestic food prices could also surge if unexpected and severe local supply disruptions occur due to super typhoons, flooding, or other natural disasters. Such renewed inflationary pressures—particularly higher costs of basic necessities—would likely constrain household spending on discretionary items, thereby weighing down overall economic growth.

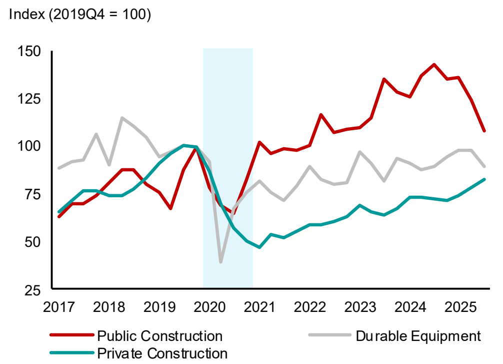
B.2 Longer-term Challenges to Growth Potential

18. The Philippines' long-term growth is constrained by structural weaknesses, exacerbated by the prolonged scarring effects of the COVID-19 pandemic. These scarring effects, reflecting the country's underlying vulnerabilities, have lowered its economic potential. Specifically, the main channels of scarring are weak private investment, followed by slower labor upskilling and subdued productivity growth.[22]

- According to AMRO staff estimates, about two-thirds of the decline in potential output is attributed to slow capital accumulation due to weak investment growth, driven by subdued private investment and FDI. Persistent underperformance in private investment (Figure 18) could curtail innovation and quality job creation, while reinforcing structural bottlenecks in infrastructure and logistics. This weakness in investment may persist, as the current administration's term will end in 2028. Concerns over policy continuity and resistance to comprehensive constitutional and economic reforms are likely to impede efforts to attract foreign investment.

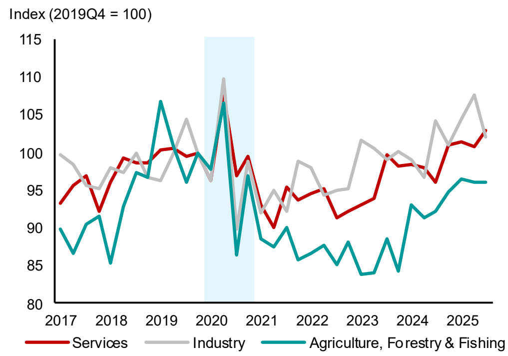
- A shortage of skilled labor and slower productivity growth (Figure 19) also hinders the transition to a knowledge-based, technology-driven economy, further constraining efforts to unlock long-term growth potential. For instance, the information technology and business process management (IT-BPM) industry, the country's leading service-exporting sector, faces a persistent lack of skilled labor, particularly those who are capable of adopting artificial intelligence (AI) in their work. Indeed, low-end IT-BPM workers would face challenges from rapidly developing AI as their current tasks could be easily replaced by AI applications (Figure 20) (See Box A "*IT-BPM in the Age of Artificial Intelligence: Challenges and Opportunities*").

Figure 18. Private and Public Investment



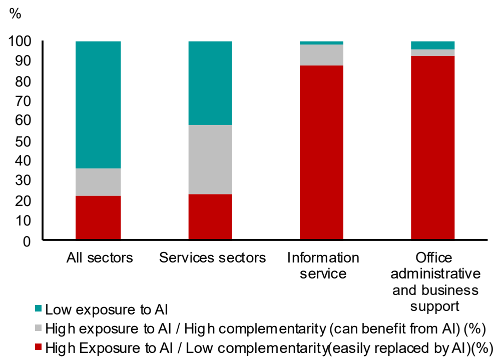
Source: PSA, AMRO staff calculations
Note: The official seasonally adjusted series are used.

Figure 19. Labor Productivity by Industry



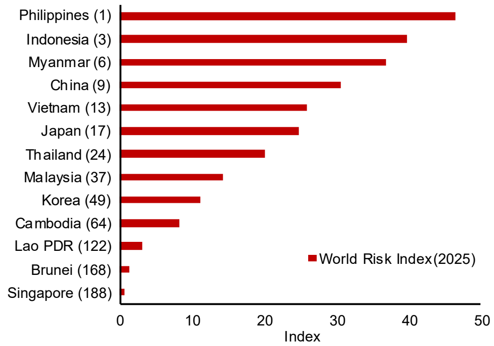
Source: PSA, AMRO staff calculations via Haver Analytics
Note: The series are seasonally adjusted via Haver Analytics.

Figure 20. Exposure and Complementarity to AI for Services and Selected IT-BPM Sectors



Source: Cucio, M., and Hennig, T. 2025. "Artificial intelligence and the Philippine labor market: Mapping occupational exposure and complementarity" IMF Working Paper No. 25/43.
Note: High complementarity indicates potential productivity gains from AI, while low complementarity indicates high risk of displacement.

Figure 21. 2025 World Risk Index for ASEAN+3



Source: World Risk Report 2025
Note: The World Risk Index indicates the disaster risk from extreme natural events and negative climate change impacts for 193 countries in the world, based on their exposure and vulnerability. Numbers in parentheses next to the country names their rankings.

19. Insufficient infrastructure development, coupled with low investment efficiency, continues to hinder infrastructure quality and growth potential in the Philippines. Despite the increase in infrastructure investment in recent years, the Philippines' infrastructure development and quality continue to lag behind its regional peers.[23] In particular, Philippine transport infrastructure is identified as the weakest area among middle-income country groups.[24] Inadequate development in transport infrastructure restricts connectivity for the flow of tourists and goods, challenging growth potential in tourism and manufacturing exports, as well as reducing the country's attractiveness to FDI. In addition, deficiencies in the quality and resilience of existing infrastructure—partly reflecting insufficient oversight over infrastructure projects—may heighten risks during natural disasters (Figure 21), as fragile structures can exacerbate the damage (See Appendix 7. Climate Clipboard for more details of climate change risks). Indeed, the recent controversies surrounding flood control projects have raised concerns about the adequacy of oversight in infrastructure development.

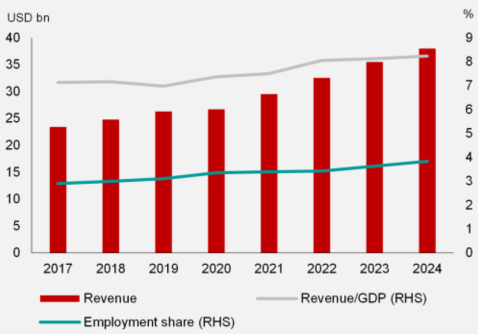
20. Limited manufacturing capacity constrains the Philippines' ability to benefit from global supply chain reconfigurations, further complicated by geopolitical tensions. Over the past decade, the country has struggled to attract new investments and integrate into regional production networks due to its shallow manufacturing base,[25] despite multinational firms diversifying away from China under the "China plus one" strategy. Persistent US-China tensions, alongside geopolitical tensions between China and the Philippines—which is closely allied with the US—could hurt Philippines exports to China and Hong Kong, China, its major export markets. If the Philippines does not promptly adjust its growth strategy to address these gaps, it could be sidelined in the next wave of regional supply chain integration.

Box A. IT-BPM in the Age of Artificial Intelligence: Challenges and Opportunities[26]

Prepared by Zhan (Bella) Guo

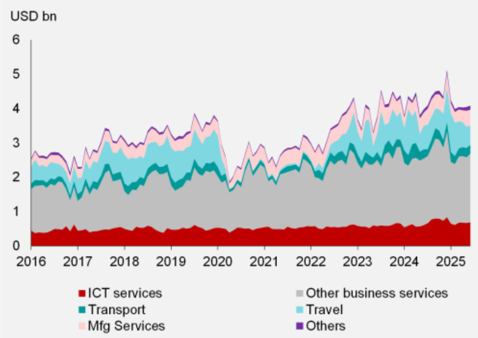
The IT-BPM industry has been a key pillar of the Philippine economy and one of the few sectors where the country maintains clear global leadership. The Philippines is the world's second largest service delivery hub, accounting for an estimated 16 to 18 percent of global IT-BPM employment.[27] In 2024, the industry generated USD38 billion in revenue, equivalent to 8.2 percent of GDP, and employed 3.8 percent of the country's workforce (Figure A1). It is also the second largest source of foreign exchange earnings after remittances,[28] contributing about 64 percent of total services exports in 2024 (Figure A2). In addition, AMRO's input-output analysis shows that IT-BPM-related sectors are main growth drivers with above-average value-added multipliers and strong forward linkages to other sectors (see Annex 3 "*Growth Potential and Structural Challenges in the Philippines: Role of Manufacturing and Services*"). Recognizing its strategic role, the authorities continue to support the industry through incentives and investment facilitation. According to the Philippine Economic Zone Authority (PEZA), 71.2 percent of the 427 economic zones nationwide are IT parks and centers, which host a large number of IT-BPM enterprises and provide both tax and non-tax incentives.

Figure A1. IT-BPM Revenue and Employment



Source: IT and Business Process Association of the Philippines (IBPAP); AMRO staff calculations

Figure A2. Services Exports Components



Source: BSP; AMRO staff calculations
Note: Information and communication technology (ICT) services and other business services represent sectors that are closely linked to the IT-BPM industry.

While still anchored in traditional outsourcing, the Philippines' IT-BPM industry faces significant challenges from the rapid adoption of artificial intelligence (AI). In 2024, contact center services remained the dominant segment, accounting for 83 percent of industry revenue and 89 percent of employment. However, many routine, rule-based functions in call centers and back-office operations are highly susceptible to automation, putting the country's comparative advantage in traditional business process outsourcing (BPO) at risk.[29] Given the sector's significant contribution to the economy, AI-driven disruptions could have macro-critical spillovers. Beyond displacement risks, uneven adoption of AI may exacerbate skill mismatches and widen labor market inequalities, particularly between BPO employees and professionals of higher skills whose tasks are more complementary to AI applications.

Table A1. Comparative Characteristics of BPO, KPO and GICs

Category	Business Progress Outsourcing (BPO)	Knowledge Process Outsourcing (KPO)	Global In-House Centers (GICs)
Definition	Outsourcing of standardized, routine business processes	Outsourcing of specialized, knowledge-intensive tasks requiring domain expertise	In-house offshore or nearshore centers delivering multiple functions
Typical Services	Call centers, customer support, data entry, payroll, claim processing, back-office finance, transcription	Market and financial research, software development, legal services, analytics, R&D support, medical content and services, education	IT development, engineering, finance, analytics, R&D
Skill Requirements	Low to medium, rule-based, transaction-heavy	Medium to high, domain knowledge, analytical and specialized professional skills	Varies, spanning transactional BPO services to advanced KPO services
Value Addition	Cost efficiency and scalability	Knowledge leverage and innovation	Cost efficiency and knowledge leverage; typically long-term strategic capability development
Delivery Model	Typically outsourced	Typically outsourced to niche providers	Typically hybrid

Source: AMRO staff compilation based on Aleman, E. 2015. "A Literature Review on Knowledge Process Outsourcing (KPO)." *Stevens Institute of Technology School of Business Research Paper No. 2015-53*; Bain & Company 2017. "Global In-house Centers in India." *Bain & Company Publication; and* Fermo, L., et al. 2021. "Labor Productivity, Real Wages in Services and the Growth in the Philippine IT-BPM Sector." *BSP Discussion Paper Series No. 9*.

Nevertheless, the Philippines could mitigate displacement risks and capture new growth opportunities in the digital economy by leveraging AI adoption. A timely integration of AI can enhance productivity, complement human labor in judgment-intensive tasks and support the IT-BPM sector's shift toward higher-value services, including domain-specific solutions and more complex functions (Table A1). In the Philippines, growth has been notably observed in the Global In-House Centers (GICs)[30] and Knowledge Process Outsourcing (KPO)[31] subsectors, such as healthcare services and data analytics.

Turning the challenges of AI into opportunities for the IT-BPM industry will require proactive and coordinated policy action. To host more KPOs and GICs, it is necessary to address skill shortages, infrastructure gaps, and regulatory barriers. The authorities have already recognized AI's transformative potential through the National AI Strategy Roadmap updated in 2024. Going forward, policy priorities should focus on three areas:

- **Human capital.** Scaling up reskilling and upskilling programs, including under the *Trabaho Para sa Bayan Act,* will be essential to support sectoral upgrading in the near term. Strengthening Science, Technology, Engineering, and Mathematics (STEM) and soft skills education will reinforce readiness over the medium to long term. The government's proposal to raise public education spending to 4 percent of GDP annually[32] is a welcome step. Beyond technical capabilities, policies that nurture local managerial and entrepreneurial talent would sharpen the Philippines' value proposition and help build a more distinctive country brand.
- **Infrastructure and innovation.** Sustaining IT-BPM growth will require robust infrastructure and stronger innovation capacity. Policy priorities include improving broadband connectivity, lowering utility costs, fostering research and development (R&D) collaboration between industry and academia, and accelerating digital infrastructure to facilitate AI adoption across firms.

- **Regulatory and business environment.** Empirical evidence suggests that regulatory reform and liberalization in services can catalyze investment and sectoral upgrading.[33] In this context, a broader reform agenda consisting of further easing foreign participation restrictions,[34] streamlining business processes, and strengthening the innovation ecosystem will be critical to attract investment and sustain growth.

C. Policy Discussions and Recommendations

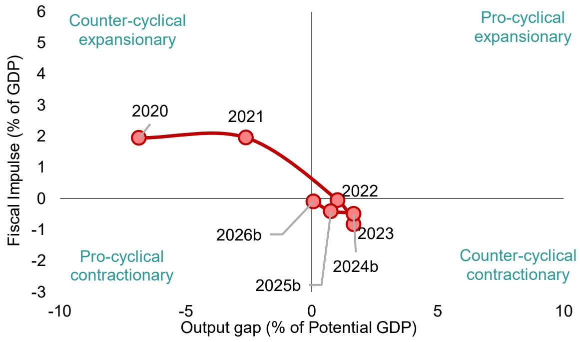
C.1 Harmonizing Macro-financial Policy Mix

21. Fiscal and monetary policies are broadly well-aligned to sustain macroeconomic stability and growth. Fiscal policy remains prudently managed in the short term, balancing fiscal consolidation with development priorities, such as infrastructure investment. Monetary policy has been normalized to a less tight stance after aggressive rate hikes that were implemented to combat high inflation, as inflation has stabilized and inflation expectations remain well-anchored. In the current environment of heightened external uncertainties, particularly with downside risks to growth, the authorities' data-dependent approach to economic policy formation is welcome as a means to mitigate risks and support the economy. Over the longer term, accelerating fiscal consolidation while prioritizing improvements in infrastructure quality, as well as enhancing the financial stability framework through enhanced macroprudential oversight and regular stress testing, would help safeguard macroeconomic and financial stability. Additionally, given the prolonged scarring effects from the COVID-19, longer-term policies should aim to elevate the Philippine growth rate to its trend growth or even higher, which requires a well-calibrated growth strategy to enhance competitiveness and boost private investment.

C.1.1 Fiscal Policy

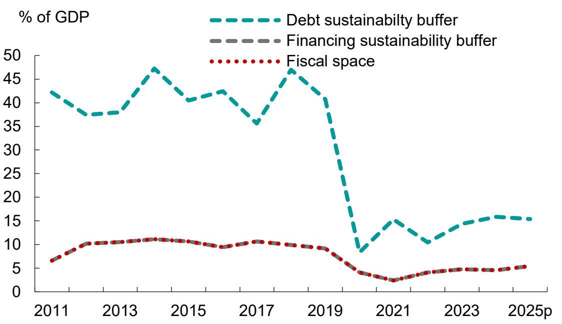
22. Given the output gap staying near zero, maintaining a neutral fiscal stance[35] in 2025-2026 remains appropriate, while continued consolidation efforts are welcome (Figure 22)**.** AMRO projects the fiscal deficit to widen to 6.2 percent of GDP in 2025, reflecting weaker economic growth than 2024 amid elevated global uncertainty and dampened investor sentiment, before narrowing to 6.1 percent in 2026. The deficit is expected to gradually decline to 4.4 percent by 2029. The national government debt is expected to decline to 60.5 percent of GDP by 2029 from 61.8 percent in 2025. That said, the medium-term debt level remains significantly higher than the pre-pandemic level of around 40 percent. Coupled with the increased share of foreign currency-denominated debt and debt held by non-residents, particularly the rise in Official Development Assistance (ODA) loans, the fiscal space is expected to remain moderate[36] over the medium-term with lower financing sustainability buffer[37] than pre-pandemic (Figure 23). Although AMRO staff's debt sustainability analysis (DSA) (See Appendix 6. Debt Sustainability Analysis) shows that the national government debt-to-GDP ratio is projected to stay below the thresholds under all stress test scenarios, restoring fiscal space remains critical to enhancing resilience against external shocks amid elevated uncertainty. In this regard, pursuing fiscal consolidation as planned would help safeguard fiscal sustainability and rebuild fiscal buffers against future shock.

Figure 22. Fiscal Stance



Sources: Bureau of the Treasury; AMRO staff estimates
Note: The GDP figure for 2025 is based on the AMRO staff projection.

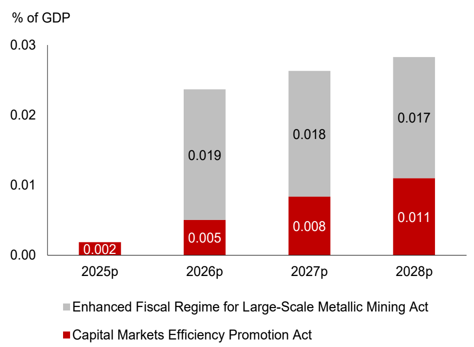
Figure 23. Fiscal Space



Source: PSA, AMRO staff estimates
Note: Fiscal space metrics are measured as the maximum fiscal stimulus size that would not breach debt-to-GDP and GFN-to-GDP thresholds over the projection period; The GDP figure for 2025 is based on the AMRO staff projection.

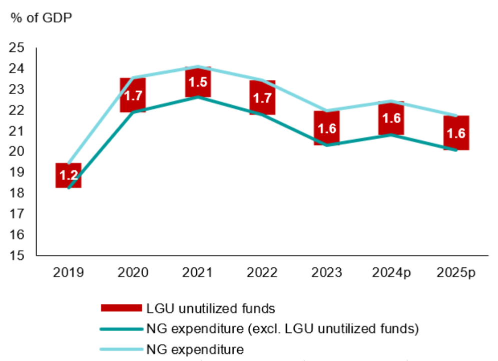
23. Expediting revenue reforms and mobilization is critical, especially considering delayed process associated with the mid-term election. The passage of the CREATE MORE Act is a welcome step toward enhancing revenue collection and aligning the tax system with the global minimum tax framework, while promoting investment through improved incentives. In parallel, the newly enacted Enhanced Fiscal Regime for Large-Scale Metallic Mining Act, as well as the Capital Markets Efficiency Promotion Act (CMEPA), could help attract additional investment and generate more revenue (Figure 24). However, several key tax measures have been delayed due to congressional adjournment. Renewed deliberation on these bills would help advance the government's tax reform agenda and enhance related tax revenues. The proposal to introduce excise taxes on sweetened beverages and junk food, which has been suspended since early 2024 due to inflationary concerns, could be reconsidered as these pressures subside. In addition, further studies on the feasibility of introducing a carbon tax and a wealth tax are encouraged.

Figure 24. Revenue Generation



Sources: DOF; AMRO staff calculations
Note: The GDP figure used is from AMRO forecast.

Figure 25. National Government Expenditure Time Series



Source: DBM, AMRO staff calculations

24. Improving fiscal spending efficiency remains a priority, particularly at the local government level. Following the 2022 Mandanas-Garcia ruling—which significantly increased the share of national taxes allocated to local government units (LGUs)—LGU budgets have risen notably and are expected to rise further in 2026.[38] However, LGUs' disbursement rates remained below 72 percent from 2019 to 2023, indicating persistent challenges in project planning and execution. Unutilized LGU funds, averaging around 1.6 percent of GDP in recent years (Figure 25), have also distorted the national government's expenditure profile. Strengthening the implementation of the Devolution Transition Plan (DTP), improving LGU absorptive capacity, and exploring mechanisms for national government support in spending are essential to enhance service delivery and infrastructure execution.

Authorities' Views

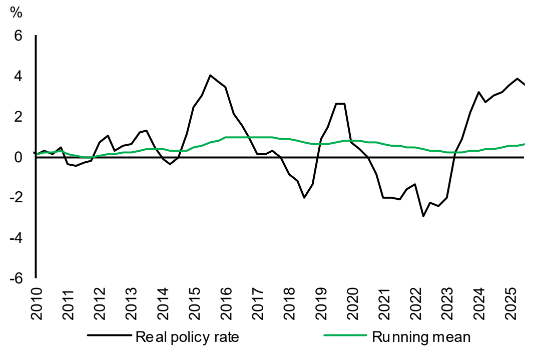
25. The authorities view that the slower-than-planned fiscal consolidation is meant to prioritize growth-enhancing measures and adapt to domestic and external development. As a result of evolving global developments, specifically the uncertainties in the Middle East and the imposition of U.S. tariffs, the country's medium-term fiscal program has been reviewed and updated to ensure that the Philippines remains among the fastest growing economies in ASEAN. The authorities acknowledge that they will continue to push for fiscal discipline, and to prioritize spending that generates the highest multiplier effect on the economy. Overall, the DBCC remains firm in advancing a growth-enhancing fiscal consolidation agenda that will maintain a resilient, inclusive, and sustainable economy despite global uncertainties.

C.1.2 Monetary Policy

26. The current low-inflation environment provides scope for a gradual normalization of the BSP's policy rate to support economic growth amid heightened external uncertainties. AMRO projects the Philippines' inflation at 1.8 percent in 2025 and 3.2 percent in 2026, remaining well anchored within the BSP's 2–4 percent target range. However, the current monetary policy stance remains tight, with the real policy rate elevated at 3.05 percent, close to its recent peak and above the historical average (Figure 26). This provides room for the BSP to gradually normalize monetary policy toward a more accommodative stance. Such normalization would enhance policy flexibility for future rate hikes if inflation risks reemerge, while improving private investment sentiment to support economic growth in an uncertain external environment.

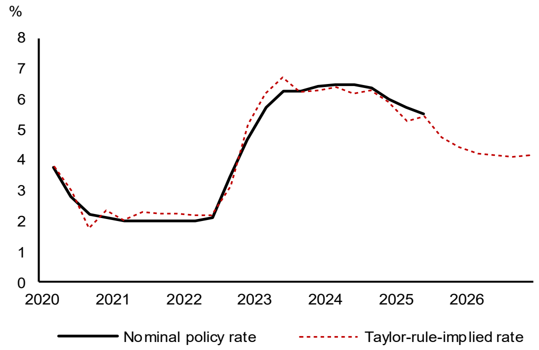
27. Historically, the BSP's monetary policy decisions have been highly responsive to inflation dynamics, consistent with its inflation-targeting mandate. A historical decomposition of the BSP's policy rate changes using a Taylor rule framework indicates that the inflation gap has been the most influential determinant of policy adjustments (See Annex 1 "*Assessing the BSP's Policy Rate Decisions: An Empirical Perspective*"). This analysis reconfirms that the recent decline in inflation, together with peso stabilization, has provided room for a less tight policy stance. However, uncertainties surrounding the state of the business cycle complicate decision-making. Specifically, given slower GDP growth since the COVID-19, differing assessments of long-term trend growth—reflecting varying views on pandemic-related scarring effects and post-pandemic potential growth—lead to divergent interpretations of the current business cycle and output gap.[39] AMRO's estimates indicate that the output gap is close to zero, which lends little support for sizable rate cuts from a growth perspective, in contrast to signals from the inflation gap.

Figure 26. Real Policy Rates



Source: BSP; PSA; Haver Analytics; AMRO staff estimation
Note: The real policy rate is calculated as the nominal policy rate minus the year-on-year CPI inflation rate for the same month. The running mean of historical average of real policy rate refers to the average of monthly real policy rates from January 2010 up to the corresponding period.

Figure 27. Taylor-rule-implied Rates



Source: BSP; PSA; Haver Analytics; AMRO staff estimation
Note: Taylor-rule-implied rates from Q3 2025 – Q4 2026 are projected using AMRO's GDP and CPI inflation projections and assumptions on economic development. The full model of Model 1 in Annex 1 is used.

28. Given the near-zero output gap and potential inflationary pressures from supply shocks, the BSP should calibrate the pace and depth of rate adjustments cautiously. The pace of monetary policy normalization in the Philippines has remained appropriate. The latest Taylor rule estimations and neutral rate assessments indicate that the actual real policy rate of 3.05 percent is well above both the long-term average real policy rate of 0.62 percent and the estimated neutral real policy rate. This supports a gradual easing of the policy rate, which is expected to continue at the current pace until the end of 2026 (Figure 27), consistent with projected inflation remaining anchored within the BSP's target range and the output gap closing. However, given the expected closing of the output gap and potential inflationary pressures from supply shocks, the BSP should maintain a flexible and cautious approach, coordinating closely with administrative measures under the whole-of-government approach and remaining prepared to adjust policies timely in response to shifts in macroeconomic or financial stability risks.

Authorities' Views

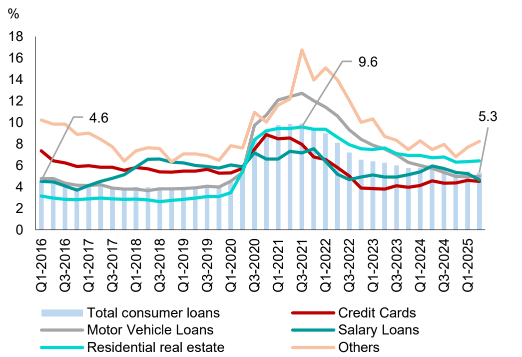
29. The BSP broadly concurred with AMRO's recommendations on the overall monetary policy direction. AMRO viewed the current stance as moderately less tight, noting that the real policy rate remains above its historical average, whereas the BSP assessed its monetary policy stance to be accommodative. Acknowledging that the estimation of technical parameters—such as potential output and the natural interest rate—is subject to uncertainty, both sides agreed on the overall policy direction.

C.1.3 Financial Policy

30. While the overall financial system remains resilient, forward-looking risk management is essential—particularly in light of the rapid growth of household lending, vulnerabilities in certain corporate sectors, and rising exposure to securities holdings.

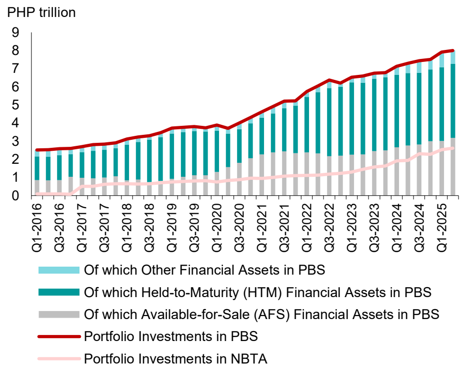
- Household lending excluding mortgages, which accounts for 15.2 percent of total bank lending,[40] grew by 23.0 percent yoy in September 2025,[41] requiring a close oversight of underwriting standards. The overall credit quality of consumer loans has not worsened, with the consumer NPL ratio remaining at the mid-5 percent range (Figure 28). However, the rapid growth of consumer loans, mainly driven by credit card lending, could pose challenges to banks in upholding prudent lending standards and effective risk management. Banks should maintain prudent credit screening, particularly for new customer segments, reassess their scoring models, and review internal rating systems, considering the recent credit cost performance. Authorities should continue to promote responsible lending behavior by banks and remain vigilant in monitoring emerging risks to avoid rising delinquencies (see Annex 2 "*Rapid Growth in Consumer Loan Market: Boon for Financial Inclusion or Risk to Stability?*").

Figure 28. NPL Ratios in Consumer Loans



Source: BSP; AMRO staff calculations
Note: The consumer loan data is taken from quarterly "Consumer Loans" statistics and consists of motor vehicle loans, credit card loans, salary loans, and residential real estate loans.

Figure 29. Portfolio Investments in Banks and Non-banks with Trust Authority



Source: BSP; AMRO staff calculations
Note: PBS and NBTA refer to the Philippine banking system and the Non-banks with Trust Authority sector, respectively. Portfolio investments are on financial assets, gross (net of amortization) on balance sheet items.

- Although the overall NPL ratio remains stable at mid-3 percent, banks need to carefully monitor asset quality in corporate segments potentially affected by the U.S. tariff policy, such as agro-based production and non-semiconductor manufacturing, including electronic data processing, office equipment, and consumer electronics. The borrowers' capacity to service debt has withstood the rise in policy rates until 2024 after the pandemic and remains largely resilient. That said, while the lower interest rates in the current monetary policy cycle could alleviate the repayment burden of borrowers, recent signs of a slight deterioration in nonfinancial corporates' debt repayment capacity[42] suggest a need for closer monitoring of refinancing risks to those heavily reliant on short-term funding.[43]

- The recent increase in banks' portfolio investments—partly driven by higher interest rates—may yield valuation gains amid the BSP's easing cycle. However, banks must manage their larger holdings of available-for-sale instruments prudently to allow for smooth adjustments of their positions during market volatility.[44] Furthermore, non-banks with trust authority (NBTAs) have tripled their financial asset holdings over the past five years,[45] equivalent to one-third the size of those of portfolio investments in the banking sector (Figure 29). This expansion highlights a need for heightened vigilance over repricing risks across the broader financial system.

31. Medium to long-term priorities include enhancing the financial safety net, strengthening macroprudential policies, and advancing financial inclusion.

- The doubling of the maximum deposit insurance coverage to PHP1 million per depositor by bank from March 2025, along with planned crisis management simulations for 2026-2027 under the Financial Stability Coordination Council's (FSCC) initiative of systemic risk crisis management, is commendable and will reinforce the financial safety net by incorporating lessons learned from the simulations in addition to existing initiatives.[46]

- Looking ahead, there is scope for more active use of macroprudential tools. Should procyclical concerns emerge, the authorities should be prepared to recalibrate the countercyclical capital buffer (CCyB), which is now set at zero. If signs of overheating in consumer loans materialize, authorities could consider introducing new macroprudential measures, such as a debt-service ratio (DSR) limit to mitigate risks of household over-indebtedness, alongside the continued risk management undertaken by banks. Addressing data gaps underpinning these policy decisions is also a critical challenge. Developing comprehensive data on household debt and repayment capacity covering both formal and informal credit would enable more timely and accurate assessments of consumer lending risks, which could also help in formulating more targeted policy responses.

- Enhancing financial literacy would help households to avoid over-indebtedness amid rapidly increasing consumer loans, while promoting financial inclusion would bring more individuals and micro, small and medium-sized enterprises (MSMEs) into the financial system. Advancing these policies together is essential to expand financial access while maintaining financial stability.[47]

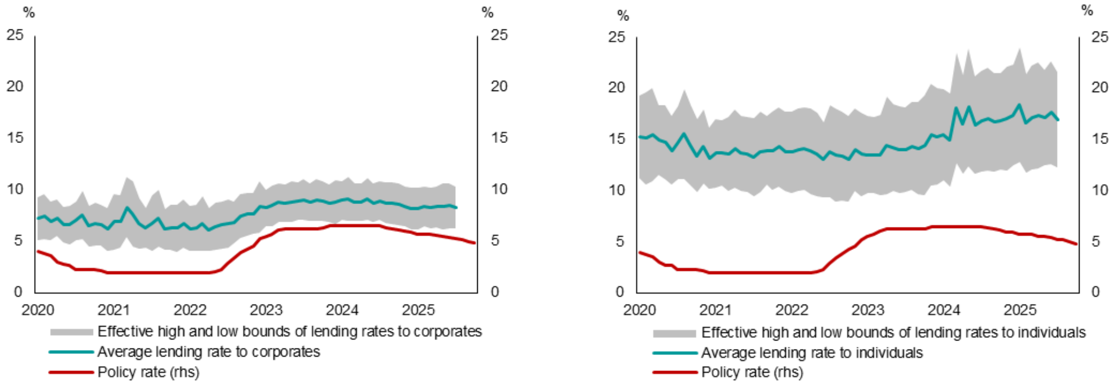
C.2 Enhancing Monetary Policy Transmission[48]

32. The Philippines' monetary policy transmission to the real economy has been uneven. Empirical evidence indicates that increases in the BSP's policy rates have reduced inflationary pressures effectively.[49] Nonetheless, the impact of policy rate changes on output and private investment has been more subdued, due to transmission lags and prevailing economic uncertainties.[50] Consequently, the success of monetary policy normalization hinges not only on the appropriate calibration of the policy stance but also on ongoing enhancements in transmission mechanisms to ensure that policy measures translate into desired macroeconomic outcomes.

Figure 30. Policy Rate and Average Lending Rates to Corporates and Individuals

a. Average Corporate Lending Rate

b. Average Individual Lending Rate



Source: BSP.

Source: BSP.

33. Monetary policy transmission to long-term market rates, deposit rates and bank lending rates remains delayed and limited. AMRO staff's empirical analysis confirms that the transmission mechanism has functioned well in the money market,[51] particularly since the interest rate corridor (IRC) was adopted in 2016.[52] However, the pass-through to long-term bond yields,[53] deposit rates, and bank lending rates, particularly for consumer and MSME loans, remains limited and delayed (Figure 30).[54] These findings underscore the view that, while reforms such as the IRC have substantially improved the transmission of policy rates to banks' short-term funding costs in the money market,[55] more efforts—such as deepening capital markets and broadening the investor base—are needed to strengthen the effectiveness and timeliness of policy transmission to long-term market rates and bank lending, and eventually to real-sector activities.

34. Better secondary market infrastructure is key to deepening liquidity and broadening the investor base in long-term bond markets. To enhance price discovery and strengthen the link between policy rates and long-term yields,[56] the authorities should continue to improve secondary market infrastructure by establishing reliable benchmarks, increasing transparency in pricing bank interest rates, and adopting global repo standards such as the Global Master Repurchase Agreement (GMRA). While some initiatives[57] have been introduced to broaden the investor base, further efforts are needed. These include revising regulations to channel more funds into domestic capital markets,[58] aligning rules and regulations across collective investment schemes,[59] and lowering withholding taxes on government securities to attract a wider range of investors.

35. In the bank lending channel, wider use of credit information would stimulate interest rate pass-through, particularly for consumer and MSME lending. Empirical evidence suggests that monetary transmission to corporate lending rates is generally quite effective, particularly for the loans provided by local universal and commercial banks (UKBs).[60] However, the Philippines has room to enhance interest rate pass-through to lending rates particularly in the consumer and SME loan segments. With ongoing development of credit information systems for consumers and MSMEs, the focus has been shifting from data collection to active usage by banks,[61] although challenges related to coverage and data quality persist. In addition to broader market reforms aimed at strengthening the link between policy rates and market interest rates, the authorities could promote wider use of shared credit data among banks. Furthermore, the authorities should encourage banks to develop credit scoring models to facilitate underwriting and risk-based interest rate setting. Given the rapid growth in consumer loans, enhancing pass-through to bank lending rates would enable monetary policy to have a greater impact on real sector activity, which relies heavily on household consumption.

C.3 Refining Growth Strategy

36. The country's growth strategy needs to be refined to address the challenges to the services sector from artificial intelligence (AI) development while advancing its shallow manufacturing base. While the Philippine economy has proven resilient to the evolving trade tensions and geopolitical dynamics, its limited manufacturing capacity has prevented it from fully capitalizing on opportunities arising from global supply chain reconfigurations. Meanwhile, the services sector with comparative advantage—though less exposed to tariff disruptions—offers limited immediate gains from manufacturing-led trade diversion. However, the rapid development of AI in recent years could post significant challenges to the services sector and erode the country's comparative advantages. Against these backdrops, refining the country's growth strategy is essential to address these structural challenges and enhance long-term competitiveness.

37. The government's development strategy aims to achieve comprehensive and balanced growth, but its policy priorities need clearer near-term focus. The government's growth strategy, guided by the Philippine Development Plan (PDP) 2023–2028, adopts a comprehensive approach aimed at balanced economic and social transformation. [62] Specifically, the PDP focuses on modernizing agriculture, revitalizing industry, and upgrading services. [63] It also emphasizes "servicification"—the rising share and embeddedness of services within manufacturing and value chains—to strengthen links between manufacturing and modern services through digitalization and innovation.[64] While the PDP's comprehensive and multi-sectoral approach is a strength, its broad scope risks diluting priorities and complicating implementation.

38. The Philippines' comprehensive growth strategy could be implemented more effectively with streamlined targets and a well-established performance evaluation framework for public spending. The country would benefit from refining its current "simultaneously" balanced growth approach by narrowing and prioritizing targets to upgrade sectors with comparative advantages while laying the foundation for broader industrial transformation. Moreover, together with refining the growth strategy, the authorities should also establish a systematic performance evaluation framework to clearly define specific targets and assess the feedback effects of their outcomes on the economy. [65] In sum, anchoring policy initiatives in near-term priority sector upgrading—supported by improvements in the overall business environment, such as stronger intersectoral linkages and sustained investments in the infrastructure, digitalization, and human capital—would position the Philippines for robust and inclusive growth, while gradually enhancing its industrial competitiveness for the future. In addition, the country should initiate more effective investment by both the public and private sectors to prepare the economy for climate and disaster shocks.

39. Given the increasing challenges posed by rapid AI development, upgrading the services sector through targeted policies is time-critical. According to AMRO's IO analysis, the IT-BPM industry can be considered as one of key industries with relatively high comparative advantages in creating value-added (see Annex 3 "*Growth Potential and Structural Challenges in the Philippines: Role of Manufacturing and Services*"). While the IT-BPM industry has established the Philippines as a key global player in business process outsourcing (BPO), the sector remains dominated by rule-based contact center services.[66] With AI becoming increasingly prevalent, the country's comparative advantage in IT-BPM could erode rapidly if the industry fails to keep pace with technological advancements. To sustain growth and transition toward higher-value segments,[67] the government should scale up support for research and development (R&D), advanced education in ICT and business services, and the broader innovation ecosystem. A broader and targeted policy approach should also include further easing of foreign participation restrictions, [68] streamlining of business processes, and strengthening of data security to attract investment, promote diversification, and enable sectoral upgrading—reinforcing the Philippines' position as a leading regional services hub.

40. Although the country's manufacturing base remains limited, [69] deepening integration into global manufacturing value chains remains a crucial medium- to long-

term goal. Since the manufacturing sector could absorb large number of workers, developing the sector could provide salary job opportunities, particularly to vulnerable groups, which could help support domestic consumption and mitigate the income inequality issues. Moreover, as stated in the PDP 2023–2028, developing a robust and high-value manufacturing base is essential for sustainable and diversified long-term growth. However, the shallow manufacturing base and issues related to high business costs, such as high utility and logistics costs, have constrained the growth and upgrading potential of the manufacturing sector.

41. Strengthening digital and infrastructure connectivity and enhancing intersectoral linkages are vital for upgrading services and manufacturing sectors for higher value-added exports. AMRO's IO analysis in Annex 3 highlights that upgrading the services sector should be complemented by strengthening the capacity of related upstream industries, particularly manufacturing and utilities. Meanwhile, expanding intersectoral linkages signal the increasing needs for "servicification" of Philippine industry, with services enabling both manufacturing export competitiveness and driving productivity gains across the economy. Therefore, the PDP's proposed 'servicification' of industry—integrating services such as ICT, logistics, and business solutions into manufacturing processes—should be gradually implemented to boost productivity and competitiveness in the manufacturing sector. In conjunction with enhancing intersectoral connections, the government should strengthen the implementation of existing plans[70] and scale up support for speeding up the development of physical and digital infrastructure, including road connectivity, stable electricity supply network, broadband connectivity, e-commerce, digital payment systems, and efficient logistics.[71] In particular, the Philippines' infrastructure spending could help boost the economy and further unleash the growth engine.[72]

42. Upskilling workforce is critical to sustaining the Philippines' long-term growth. As digitalization and AI transform the global landscape, addressing talent gaps and skills mismatches requires the government to work closely with educational institutions, industry stakeholders and training providers to align workforce skills with evolving labor market needs and ensure preparedness for emerging opportunities. Specifically, the measures could include expanding industry-driven training programs[73] and modernizing curricula with a strong emphasis on digital literacy, science, technology, engineering, and mathematics (STEM), and soft skills aligned with the requirements of knowledge-based services sectors, such as IT-BPM and advanced manufacturing. In this regard, the government's new proposal to allocate public spending on education to 4 percent of GDP annually would help upgrade human capital.

C.4 Boosting Private Investment

43. The government should crowd in private investment to address persistent underinvestment and ensure sustainable long-term economic growth. In the Philippines, private investment, partially funded by FDI, contributes to three-quarters of total investment and is a key driver of capital accumulation. The slow post-pandemic recovery in investment is the main scarring effects of the pandemic. Furthermore, persistent underinvestment by the private sector has significantly constrained technological progress and job creation. Addressing this investment gap is critical to achieving the country's development goals and unlocking its full growth potential.

44. Since the pandemic, private investment growth in the Philippines has remained subdued, in contrast to the sustained expansion in public construction investment.

Recent data shows that private investment is growing more slowly relative to government-led construction and remains below pre-pandemic levels. This slower recovery in private investment reflects cautious investor sentiment amid ongoing economic uncertainties, as well as the expected slower economic recovery. Consequently, although the public infrastructure investment has recovered, it is taking up only about one-quarter of total investment and has yet to crowd in substantial private investment, resulting in insufficient capital accumulation to support higher growth potential (See Box B "*Assessing the Savings-Investment Gap*").

45. The Philippines' investment climate faces key challenges stemming from underdeveloped infrastructure, regulatory barriers, and limited access to long-term financing.[74] Insufficient transport and logistics infrastructure increase operational costs and hinder connectivity, thereby reducing the country's appeal to investors.[75] Despite improvements in the regulatory framework and public services,[76] barriers to foreign investment in certain sectors[77] and high costs of doing business, such as high electricity costs,[78] continue to weigh on competitiveness. Access to long-term finance remains constrained by shallow capital markets and limited credit options, especially for MSMEs.[79] Addressing these structural constraints through targeted reforms is essential to revitalizing private investment and unlocking the Philippines' growth potential.

46. Enhancing infrastructure development remains critical to boosting private investment as well as long-term growth. While progress has been made, with 207 Infrastructure Flagship Projects (IFPs) in the pipeline, nearly half remain in preparatory stages, and a significant share of ongoing projects are expected to be completed only beyond 2028. This suggests that the crowding-in effect on private investment and growth dividends will likely materialize only in the medium term. Accelerating delivery requires strong project planning and execution capacity, complemented by improved coordination between national and local governments to ensure timely implementation and alignment with regional priorities. In addition, regular assessments of fiscal contingencies—particularly for unsolicited public-private partnerships (PPPs)—are warranted to safeguard fiscal sustainability.[80] Equally important, strengthening transparent and accountable mechanisms across the project cycle would help improving oversight in infrastructure projects, such as the issues raised by the recent flooding control projects controversial, while ensuring higher quality standards and cost-effectiveness.[81] [82]

47. To address legislative drag, stronger reform implementation and measures to enhance competitiveness are needed. Progress has been made in reducing FDI frictions through investment-related legislative reforms,[83] including the passage of the CREATE MORE Act in November 2024, which enhanced the tax incentive framework to attract more investors.[84] While these legal amendments address long-standing tax-related barriers, more focus should now be placed on effective implementation—turning reforms into tangible investment commitments through targeted promotion, faster project execution, and better knowledge transfers to maximize FDI benefits. Further efforts are needed to relax restrictions on foreign investors' participation in the services sector, streamline regulations to promote the ease of doing business, and implement the recent legislations[85] on expediting the digitalization of government services. Ongoing dialogue with investors and continued regulatory updates will also help sustain a more competitive and business-friendly environment.

48. To address limited access to long-term corporate financing, the authorities should strengthen financial market reforms and interagency coordination. To foster a more conducive environment for corporate bond issuances,[86] the Securities and Exchange Commission (SEC) launched several initiatives[87] addressing administrative bottlenecks, such as lengthy processing times for issuance and documentation. The BSP and the International Finance Corporation (IFC) will also jointly develop and promote MSME financing to mobilize movable assets as collateral, expanding access to financing.[88] To maximize the impact of these initiatives, the authorities should ensure effective implementation and a streamlined process for local corporations to raise funds from financial markets. Furthermore, open finance initiatives—such as the Credit Information Corporation (CIC), the BSP's new CRDPh System and the Philippine Open Finance Pilot—could allow more accurate and comprehensive sharing of credit information, thereby improving access to financing. While these initiatives are welcome, stronger coordination among agencies is essential to channel business financing effectively into productive investments. Finally, new issuances of digital bank licenses that start this year, primarily aimed at enhancing financial inclusion, can also be awarded to lenders that offer targeted propositions to help smaller firms obtain capital.[89]

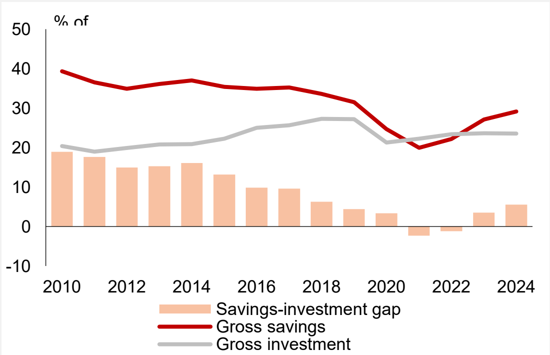
Box B. Assessing the Savings-Investment Gap[90]

Prepared by Jinho Choi

The Philippines' savings–investment balance has deteriorated, reflecting falling gross savings and increasing investment trends. According to official statistics,[91] the country has maintained a surplus in the savings–investment balance for much of the past decade (Figure B1), which is unusual for a developing economy with large investment needs. However, prior to the pandemic, the surplus gradually shrank as a share of GDP, reflecting declining gross savings and rising investments. Since 2022, both savings and investment have recovered moderately, but remain below pre-pandemic levels.

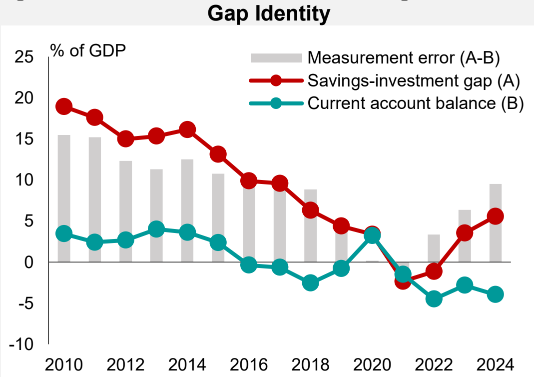
Comparing the official saving-investment gap data with its external balance reveals large measurement errors. Beckmann et al. (2022) note that discrepancies of more than 5 percent of GDP between the saving-investment gap and the current account balance are common among emerging market economies, largely due to measurement errors.[92] In particular, the country's remittance inflows—averaging about 7.5 percent of GDP during 2010-19—are prone to under-recording and unreporting, as well as to under-captured remittance-financed investments, especially in the informal sector. Consequently, part of these remittances may be reflected only in savings, or less in investment, without being fully captured in the current account, thereby contributing to the Philippines' sizable measurement discrepancies (Figure B2).[93]

Figure B1. Gross Savings and Investment



Source: Philippine Statistics Authority (PSA); AMRO staff calculations

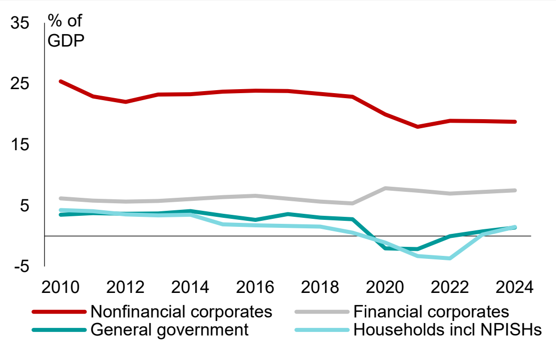
Figure B2. Measurement Error for Savings-Investment Gap Identity



Source: PSA; AMRO staff calculations

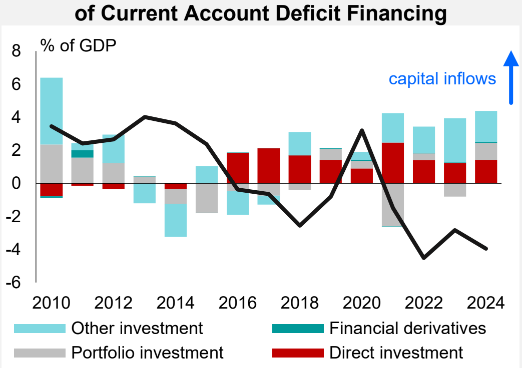
Sectoral saving trends reveal weaknesses in the economy's capacity to channel savings into productive private investment. Non-financial corporations have consistently been the largest savers, though their savings ratio declined notably after 2020. Households and the government dissaved during the pandemic before returning to net savings in 2023–24, while financial corporations increased savings post-pandemic (Figure B3). This shift in sectoral savings—characterized by lower corporate savings, temporary household and government dissaving during the slow post-pandemic recovery, and higher financial sector savings with banks holding relatively high, albeit declining, liquid assets[94] and increasing portfolio investments—has limited the resources channeled into productive private investment. Moreover, the literature indicates that remittance-funded consumption and investment often flow into relatively unproductive assets, such as housing, land and even jewelry (Chami *et al*., 2008).[95] As a result, private investment has remained subdued despite the high level of gross savings, including remittances.

Figure B3. Gross Savings by Institutional Sector



Source: PSA; AMRO staff calculations

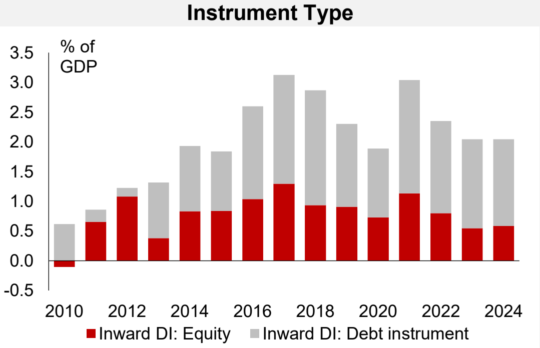
Figure B4. Breakdown of Financial Account as Source of Current Account Deficit Financing



Source: PSA; BSP; AMRO staff calculations

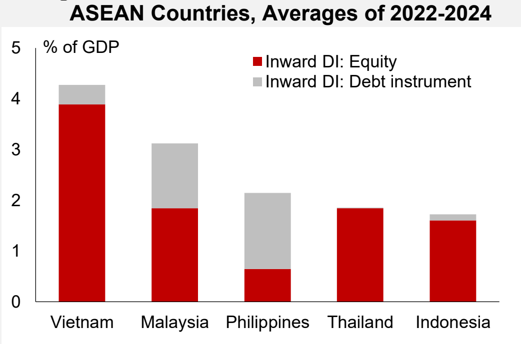
Foreign capital inflows have become essential to bridging the narrowing savings-investment gap. Since 2016, FDI has provided a relatively steady source of financing, helping offset more volatile portfolio and other investment flows (Figure B4). Yet, inward FDI has been skewed toward debt instruments—dominated by intercompany loans—rather than equity, limiting its contribution to long-term productive capacity (Figure B5). This composition reflects broader structural challenges: as highlighted in the literature,[96] weak governance and institutional quality discourage equity-type investment, since equity financing is more exposed to expropriation risk than debt financing. A regional comparison reinforces this point: the Philippines' equity share in inward FDI remains well below its peers such as Vietnam and Malaysia, which have attracted more equity-type FDI to expand semiconductor production capacity and climb up the value chain, underscoring its relative weakness in attracting stable, productivity-enhancing capital (Figure B6).

Figure B5. Breakdown of Inward FDI to Philippines by Instrument Type



Source: BSP, AMRO staff calculations

Figure B6. Breakdown of Inward FDI in Selected ASEAN Countries, Averages of 2022-2024



Source: National authorities, AMRO staff calculations

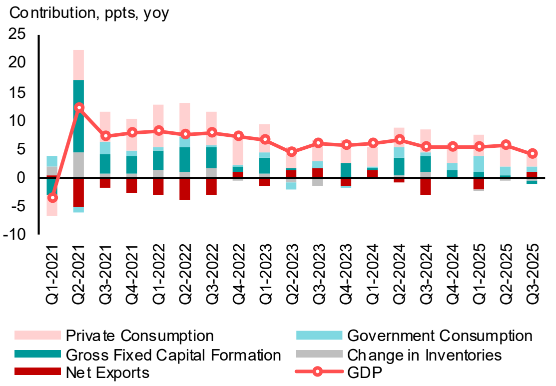
Diversifying stable sources of private investment financing is essential to manage external imbalances and safeguarding macro-financial stability. Although the savings ratio of non-financial corporations has declined since the pandemic, they remain the economy's largest savers, suggesting scope to crowd in private resources toward infrastructure and long-term development projects. At the same time, boosting the share of equity-based FDI is essential to strengthen domestic supply chains and industrial capacity, which will require governance reforms and greater policy credibility. Finally, expanding the domestic savings base—through deeper financial inclusion, stronger pension and insurance systems, and more developed capital markets—would help mobilize household and institutional savings, thereby reducing reliance on volatile foreign capital and mitigating the risk of sustained external imbalances.

Appendices

Appendix 1. Selected Figures for Major Economic Indicators

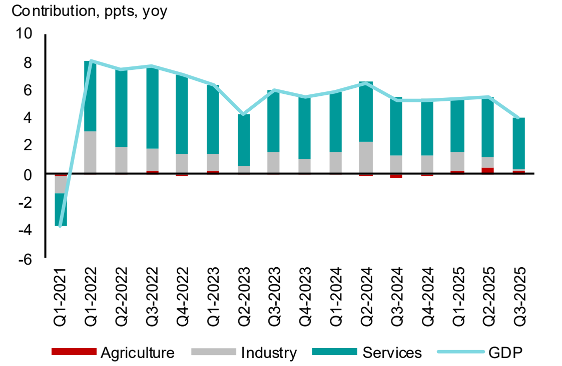
Figure 1.1 Real Sector

Growth slowed in Q3 2025, mainly due to weaker domestic demand adversely affected by natural disasters and flood control project controversies.



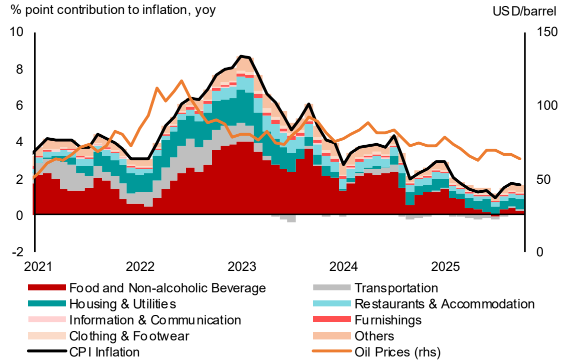
Source: PSA; AMRO staff calculations

By sector, services remained the main contributor of growth.



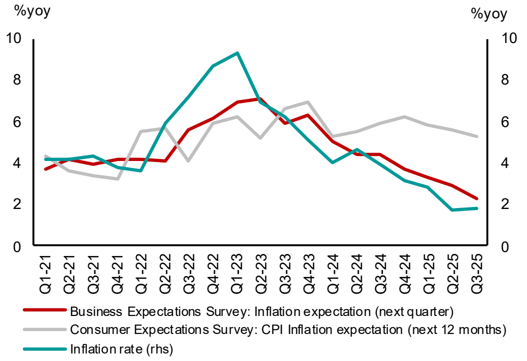
Source: PSA; AMRO staff calculations

Before picking up since August, the easing of inflation in 2025 was broad-based, mainly driven by slower food price inflation.



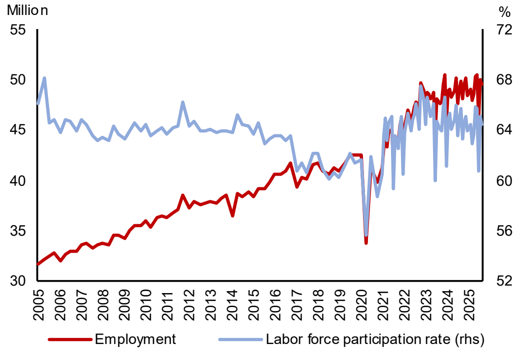
Source: PSA; AMRO staff calculations

Inflation expectations are well-anchored for businesses, but remain high for consumers.



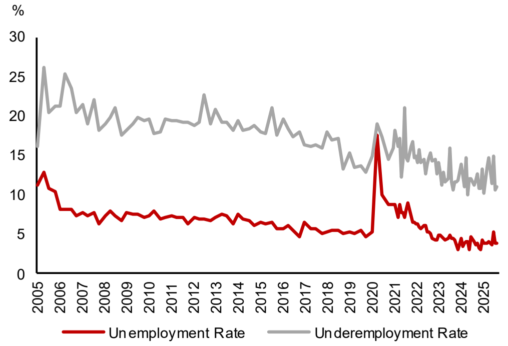
Source: PSA; BSP; AMRO staff calculations

Employment increased steadily, surpassing pre-COVID levels.



Source: PSA

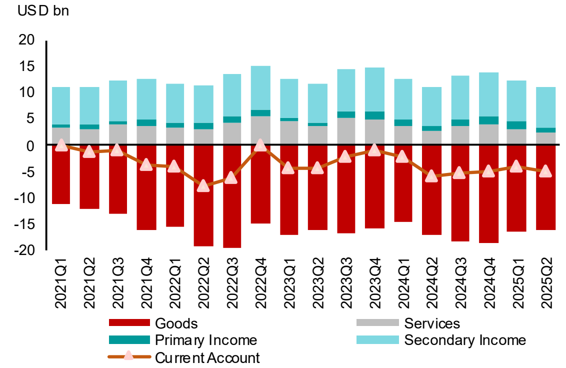
Unemployment rate continued to improve, while underemployment rate remained at double digits.



Source: PSA

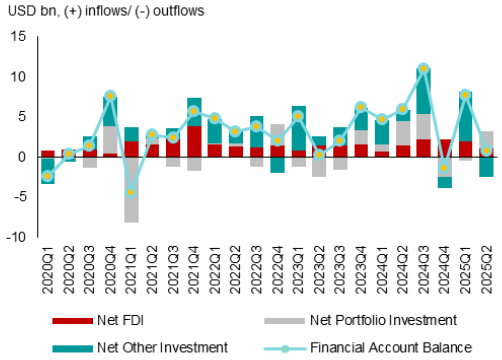
Figure 1.2 External Sector

The current account deficit widened in H1 2025 year on year, with a lower trade-in-services surplus.



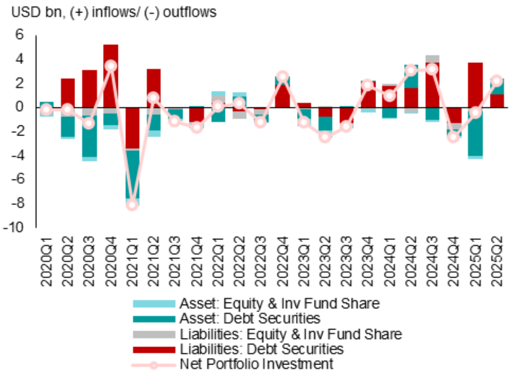
Source: BSP; AMRO staff calculations

The financial account posted net inflows in H1 2025, reversing the net outflows recorded in Q4 2024.



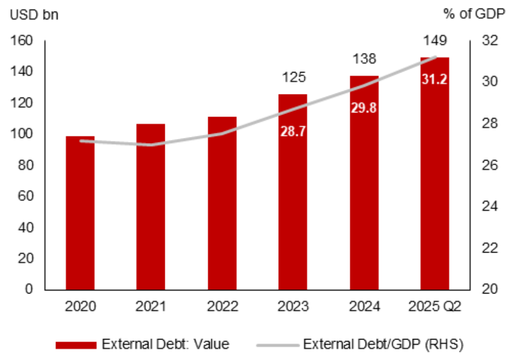
Source: BSP; AMRO staff calculations

Portfolio investments registered net inflows in H1 2025, driven by debt inflows.



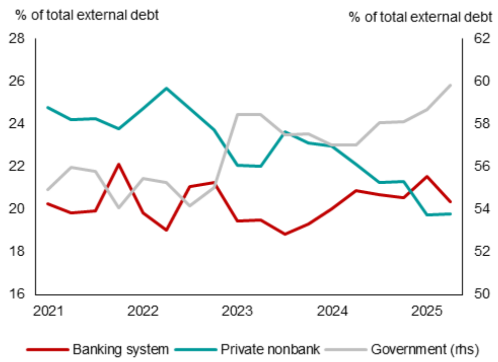
Source: BSP; AMRO staff calculations

External debt rose but remained prudent by regional standards.



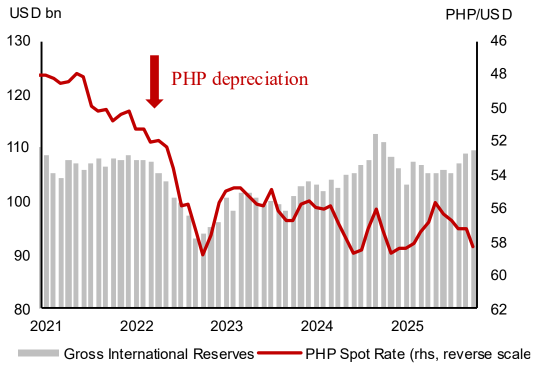
Source: BSP

More foreign borrowings by banks and the government drove the increase in external debt.



Source: BSP; AMRO staff calculations

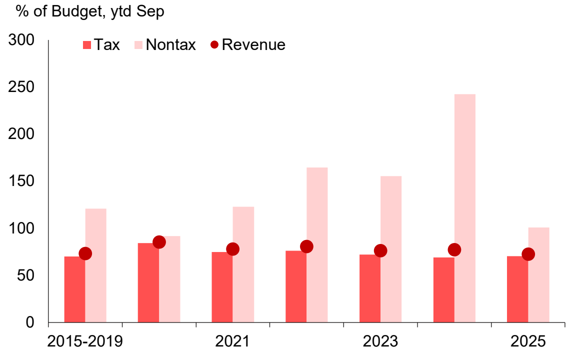
International reserves remained stable at around USD109.7 billion in October 2025.



Source: BSP; AMRO staff calculations

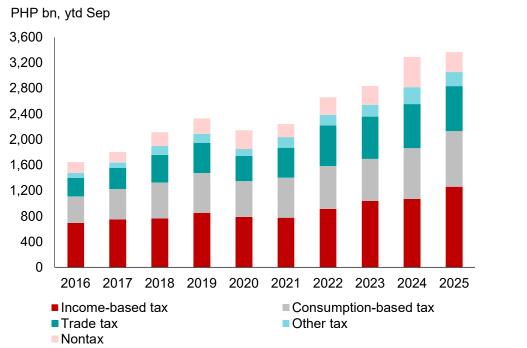
Figure 1.3 Fiscal Sector

In Q1-Q3 2025, revenue collection was largely on track, while non-tax revenue fell short of last year's performance.



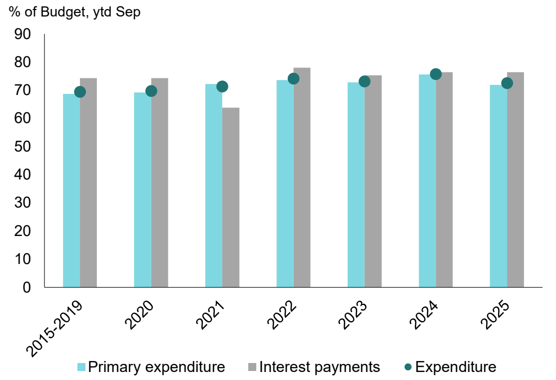
Source: Bureau of the Treasury (BTr); AMRO staff calculations

Tax revenue was supported by strong VAT and income tax collections (such as CIT and PIT) amid solid economic activity.



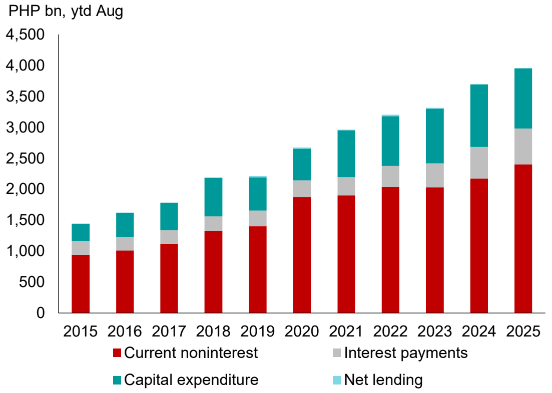
Source: BTr; AMRO staff calculations

Expenditure executions were broadly aligned consistent with the budget, with front-loading in Q1 offset by a slowdown in Q2.



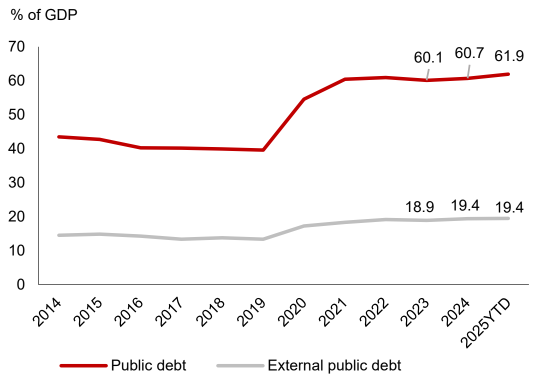
Source: DBM; AMRO staff calculations

Current noninterest expenditures and interest payments contributed to the growth in 2025 expenditures.



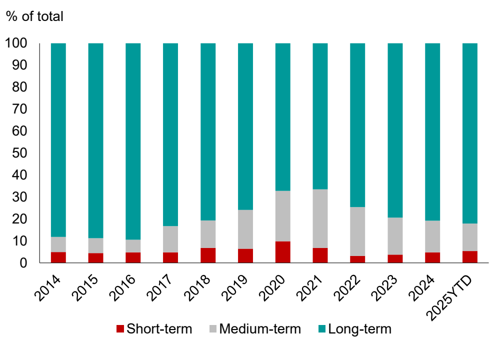
Source: BTr; AMRO staff calculations
Note: Net lending represents advances by the NG for the servicing of government guaranteed corporate debt during the year, net of repayments on such advances, and includes loan proceeds from program loans relent to government corporations.

Public debt stood at 61.9 percent of GDP in September 2025, slightly above the end-2024 level…



Source: BTr; AMRO staff estimates and projections.
Note: 1) The nominal GDP (PHP28,209 billion) is based on AMRO staff projections. 2) The data in 2025 is up to September.

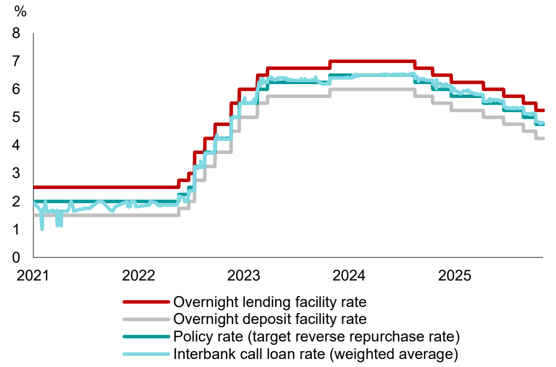
…and remained dominated by long-term tenors.



Source: BTr; AMRO staff calculations
Note: The data in 2025 is up to September.

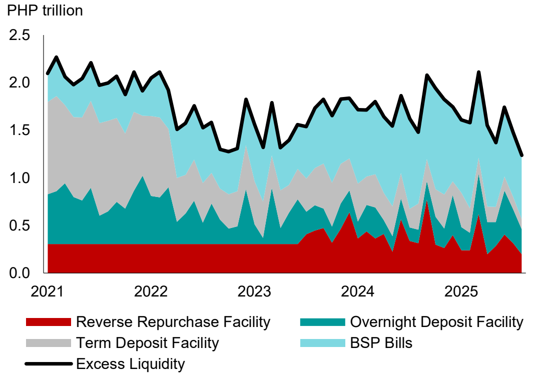
Figure 1.4 Monetary and Financial Conditions

The BSP started to cut the policy rate in August 2024.



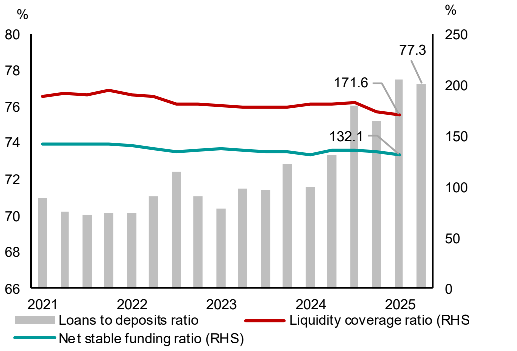
Source: BSP

Liquidity remained ample in the interbank market.



Source: BSP

Liquidity was also ample in the banking system…

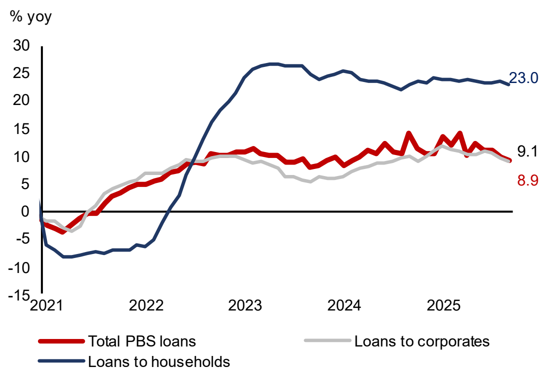


Source: BSP; IMF
Note: The loan to deposit ratio is defined as gross total loans to total deposit liabilities. The liquidity coverage ratio and the net stable funding ratio are from the IMF's Financial Soundness Indicators.

… as well as in the broader financial system.

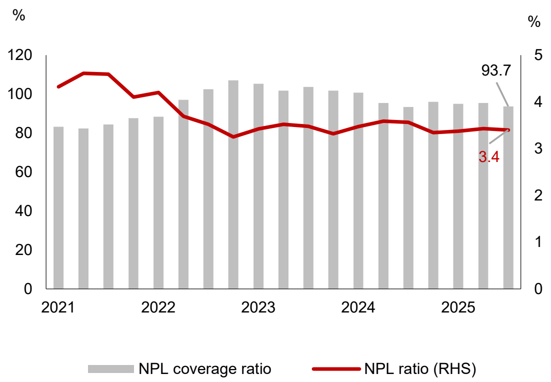
Source: BSP

Bank lending accelerated, while household loan growth continues to outpace corporates.



Source: BSP
Note: Total Philippine banking system (PBS) loans refers to total loans, under the "Loans Outstanding for Production and Household Consumption" statistics. Loans to households exclude mortgages. Mortgage loans are classified under loans to the real estate sector in corporate loans.

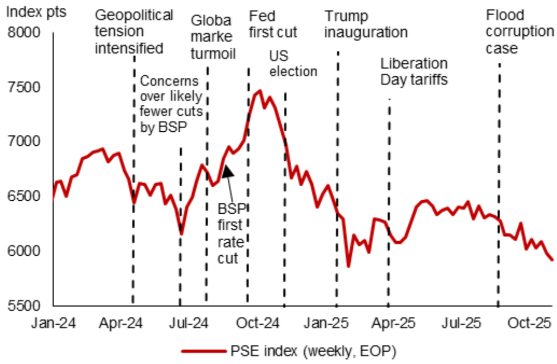
Despite accelerating loan growth, the NPL ratio and NPL coverage ratio were largely unchanged.



Source: BSP
Note: The NPL ratio is net of interbank loan receivables.

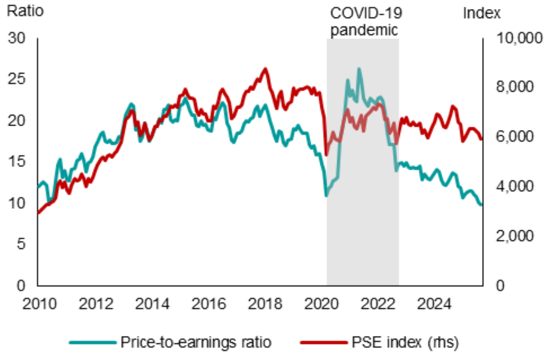
Figure 1.5 Financial Markets

The PSE index has remained below October 2024's peak...



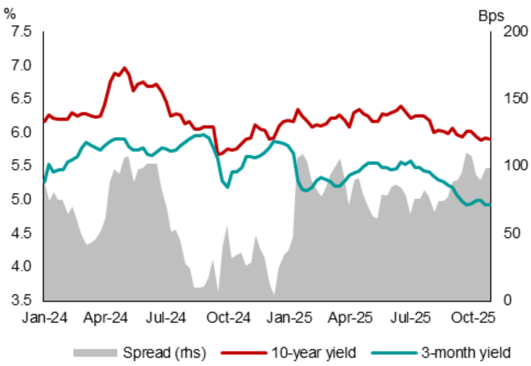
Source: PSE

... while the price-to-earnings ratio continued to decline after the pandemic.



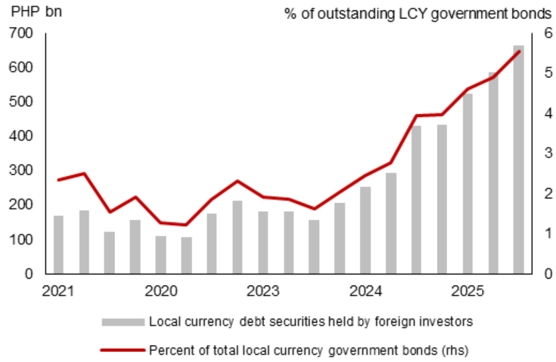
Source: PSE; Haver Analytics; AMRO staff calculations

The Treasury yield curve has steepened in 2025 due to lower three-month yields.



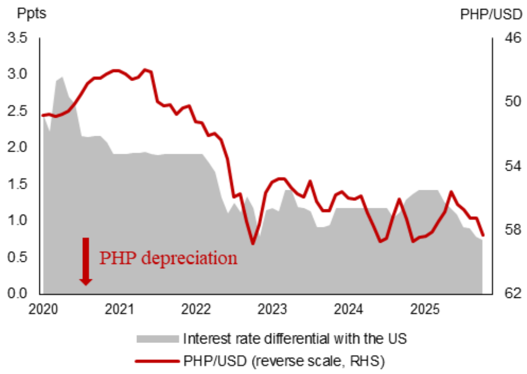
Source: BTr; London Stock Exchange Group; Haver Analytics; AMRO staff calculations.

Foreign holdings of LCY government bonds have increased but still account for quite a small share.



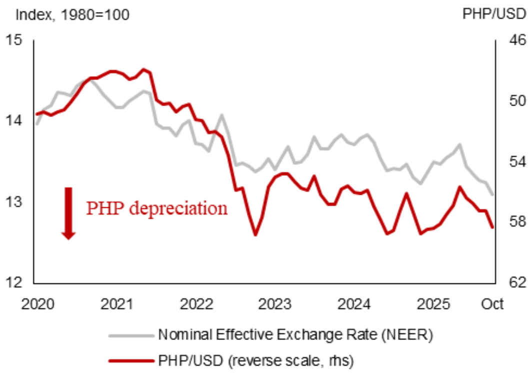
Source: ADB Asian Bond Online database.

The peso has depreciated against the U.S. dollar since May 2025 as the interest rate differential with the U.S. narrowed.



Source: BSP; AMRO staff calculations

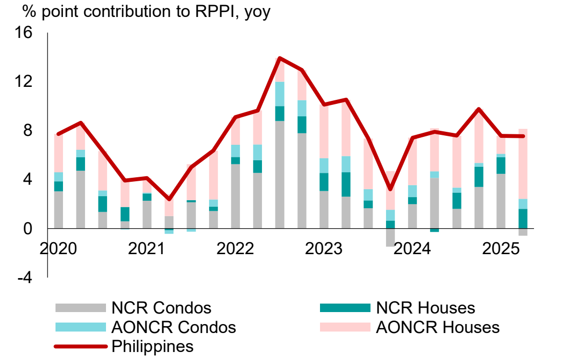
The NEER also declined in the second half of the year, reflecting weakness of peso against key trading partners.



Source: BSP

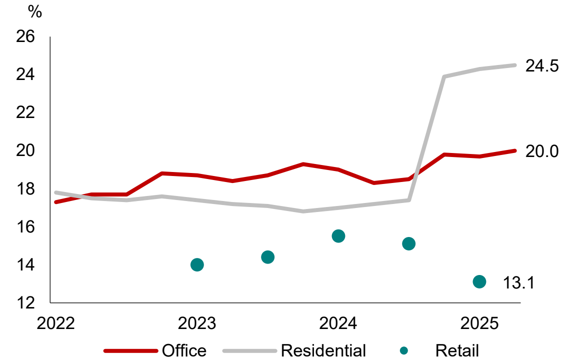
Figure 1.6 Property Market

Residential property prices continued to rise in Q2 2025, according to BSP data.



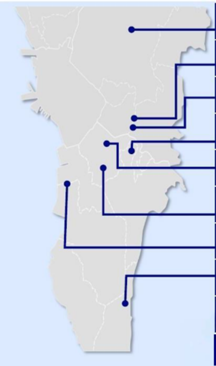
Source: BSP; AMRO staff calculations
Note: NCR = National Capital Region; AONCR = Areas outside NCR.

However, residential and office vacancy rates remained elevated as of Q2 2025.



Source: Colliers

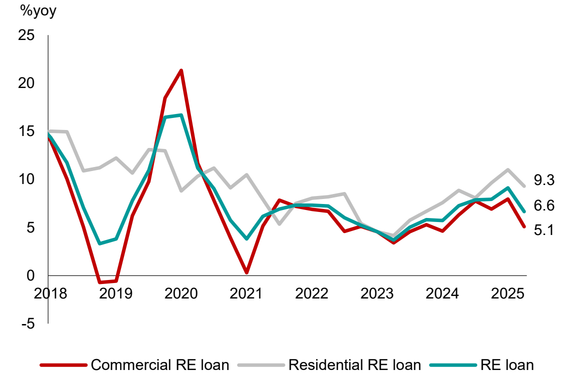
Vacancy rates exhibited significant disparities across cities, with the Bay Area recording the highest vacancies in both office and residential segments, reflecting the impact of the POGO exit since July 2024.



Submarkets in Metro Manila	Residential market		Office market	
	Remaining Inventory (thousand units)	Vacancy Rate (%)	Vacancy Stock (thousand sqm)	Vacancy Rate %)
Quezon City	11	-	367	21.1
Ortigas Center	2	6.7	263	11.9
Ortigas Fringe	-	-	163	25.9
Fort Bonifacio	1	19.3	425	15.9
Makati CBD	1	13.3	244	7.2
Makati Fringe	4	-	248	36.4
Bay Area	4	53.2	592	41.4
Alabang	6	-	274	31.6
Others	46	-	234	38.1
Total	**75**	**24.3**	2800	**19.7**

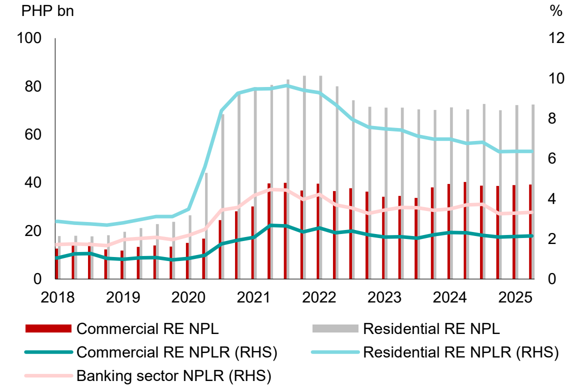
Source: Colliers
Note: Data as of Q1 2025.

Real estate loans continued to expand by 6.6 percent yoy in Q2 2025, with residential segment outpacing that of the commercial segment in growth.



Source: BSP; AMRO staff calculations
Note: RE= Real estate.

The asset quality of real estate loans improved in 2024 and remained stable in H1 2025, although the NPL ratio for the residential segment remained above 6 percent.



Source: BSP; AMRO staff calculations
Note: RE = Real estate; NPL = Nonperforming loan; NPLR = NPL ratio.

Appendix 2. Selected Economic Indicators for the Philippines

	2021	2022	2023	2024	Projection	
					2025	2026
Real sector and prices	(in percent change, unless specified)					
Real GDP	5.7	7.6	5.5	5.7	5.2	5.3
Private consumption	4.2	8.3	5.5	4.9	4.9	5.8
Government consumption	7.2	5.1	0.3	7.3	9.6	5.0
Gross fixed capital formation	9.8	9.8	8.2	6.3	3.4	5.5
Exports of goods and services	8.0	11.0	1.3	3.3	5.5	1.5
Imports of goods and services	12.8	14.0	1.0	4.2	4.7	4.5
Prices						
Consumer price inflation (period average)	3.9	5.8	6.0	3.2	1.7	3.2
Core inflation (period average)	3.0	3.9	6.6	3.0	2.4	3.3
GDP deflator	2.3	5.5	4.6	2.9	1.4	2.2
External sector	(in billions of U.S. dollars, unless specified)					
Current account balance	-5.9	-18.3	-12.4	-18.3	-19.3	-22.6
(in percent of GDP)	-1.5	-4.5	-2.8	-4.0	-3.9	-4.1
Goods trade balance	-52.8	-69.7	-66.0	-68.9	-71.6	-76.6
Services trade balance	14.0	15.9	18.2	14.0	14.2	14.2
Primary income, net	3.3	4.9	4.3	4.9	5.6	6.3
Secondary income, net	29.5	30.6	31.1	31.7	32.6	33.5
Financial account balance	-6.4	-13.9	-13.6	-20.2	-16.1	-17.8
(in percent of GDP)	-1.6	-3.4	-3.1	-4.4	-3.2	-3.2
Direct investment, net	-9.7	-5.6	-5.4	-6.6	-4.0	-6.6
Portfolio investment, net	10.2	-1.7	3.5	-4.7	-5.0	-5.5
Financial derivatives, net	0.0	0.0	-0.1	-0.3	-0.2	-0.2
Other investment, net	-7.0	-6.5	-11.6	-8.6	-6.9	-5.5
Error and omission	0.8	-2.9	2.4	-1.4	-4.9	0.0
Overall balance	1.3	-7.3	3.7	0.6	-8.1	-4.8
(in percent of GDP)	0.3	-1.8	0.8	0.1	-1.6	-0.9
Gross international reserves (end-period)	108.8	96.1	103.8	106.3	104.1	99.3
Total external debt (percent of GDP)	27.0	27.5	28.7	29.8	31.0	31.3
Short-term external debt (percent of total)	14.2	14.9	13.6	15.2	15.2	15.2
Fiscal sector (National Government)	(in percent of GDP)					
Government revenue	15.5	16.1	15.7	16.7	15.7	15.7
Government expenditure	24.1	23.4	21.9	22.4	21.9	21.8
Fiscal balance	-8.6	-7.3	-6.2	-5.7	-6.2	-6.1
Primary balance	-6.4	-5.0	-3.6	-2.8	-3.3	-3.3
Government debt	60.4	60.9	60.1	60.7	61.8	62.8
Monetary sector	(in percent change, end-period unless specified)					
Domestic credit	8.2	12.7	9.3	10.4	10.5	10.5
Of which: Private sector	3.8	11.1	9.1	12.2	10.0	10.0
Broad money (M4)	8.0	8.0	7.4	7.7	7.0	7.0
M1	13.6	6.8	3.7	7.7	5.0	5.0
Memorandum items:						
Exchange rate (peso per USD, average)	49.3	54.5	55.6	57.3	-	-
Exchange rate (peso per USD, eop)	50.8	56.1	55.6	58.0	-	-
Gross domestic product at current price (In trillions of pesos)	19.4	22.0	24.3	26.4	28.2	30.4
Gross domestic product at current price (In billions of U.S. dollar)	394.1	404.4	437.1	461.6	498.4	549.4
GDP per capita (in U.S. dollar)	3,580.0	3,644.8	3,905.3	4,089.3	4,361.1	4,750.3

Source: Philippine authorities; AMRO staff estimates
Note: GDP per capita (in U.S. dollars) is based on BSP historical data, with projections computed as projected GDP divided by projected population, using the United Nations' population growth rate applied to the latest actual population.

Appendix 3. Medium-term Projections for the Philippines

	2024	Projection				
		2025	2026	2027	2028	2029
Real sector and prices	(in percent change, unless specified)					
Real GDP	5.7	5.2	5.3	6.2	6.2	6.0
Private consumption	4.9	4.9	5.8	6.5	6.5	6.5
Government consumption	7.3	9.6	5.0	5.0	5.0	5.0
Gross fixed capital formation	6.3	3.4	5.5	6.6	6.6	5.3
Exports of goods and services	3.3	5.5	1.5	7.0	7.0	6.0
Imports of goods and services	4.2	4.7	4.5	8.0	8.0	7.0
Prices						
Consumer price inflation (period average)	3.2	1.7	3.2	3.6	3.3	3.4
Core inflation (period average)	3.0	2.4	3.3	3.7	3.6	3.6
GDP deflator	2.9	1.4	2.2	2.8	2.8	2.8
External sector	(in billions of U.S. dollars, unless specified)					
Current account balance	-18.3	-19.3	-22.6	-25.3	-28.2	-30.4
(in percent of GDP)	-4.0	-3.9	-4.1	-4.2	-4.3	-4.2
Goods trade balance	-68.9	-71.6	-76.6	-83.3	-90.6	-97.7
Services trade balance	14.0	14.2	14.2	16.5	19.1	22.0
Primary income, net	4.9	5.6	6.3	7.1	8.0	8.9
Secondary income, net	31.7	32.6	33.5	34.4	35.4	36.3
Financial account balance	-20.2	-16.1	-17.8	-24.4	-28.6	-30.1
(in percent of GDP)	-4.4	-3.2	-3.2	-4.1	-4.4	-4.2
Direct investment, net	-6.6	-4.0	-6.6	-10.8	-11.8	-12.9
Portfolio investment, net	-4.7	-5.0	-5.5	-9.0	-13.2	-14.3
Financial derivatives, net	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1
Other investment, net	-8.6	-6.9	-5.5	-4.4	-3.5	-2.8
Error and omission	-1.4	-4.9	0.0	0.0	0.0	0.0
Overall balance	0.6	-8.1	-4.8	-0.9	0.5	-0.2
(in percent of GDP)	0.1	-1.6	-0.9	-0.1	0.1	0.0
Gross international reserves (end-period)	106.3	104.1	99.3	98.5	98.9	98.7
Total external debt (percent of GDP)	29.8	31.0	31.3	31.0	30.8	30.8
Short-term external debt (percent of total)	15.2	15.2	15.2	15.2	15.2	15.2
Fiscal sector (National Government)	(in percent of GDP)					
Government revenue	16.7	15.7	15.7	15.7	15.8	15.8
Government expenditure	22.4	21.9	21.8	21.0	20.6	20.2
Fiscal balance	-5.7	-6.2	-6.1	-5.3	-4.9	-4.4
Primary balance	-2.8	-3.3	-3.3	-2.5	-2.2	-1.7
Government debt	60.7	61.8	62.8	62.3	61.5	60.5
Monetary sector	(in percent change, end-period unless specified)					
Domestic credit	10.4	10.5	10.5	10.5	10.5	10.5
Of which: Private sector	12.2	10.0	10.0	10.0	10.0	10.0
Broad money (M4)	7.7	7.0	7.0	7.0	7.0	7.0
M1	7.7	5.0	5.0	5.0	5.0	5.0
Memorandum items:						
Exchange rate (peso per USD, average)	57.3	-	-	-	-	-
Exchange rate (peso per USD, eop)	58.0	-	-	-	-	-
Gross domestic product at current price (In trillions of pesos)	26.4	28.2	30.4	33.2	36.2	39.4
Gross domestic product at current price (In billions of U.S. dollar)	461.6	498.4	549.4	602.8	658.1	716.8
GDP per capita (in U.S. dollar)	4,089.3	4,361.1	4,750.3	5,150.4	5,556.4	5,980.6

Source: Philippine authorities; AMRO staff estimates
Note: GDP per capita (in U.S. dollars) is based on BSP historical data, with projections computed as projected GDP divided by projected population, using the United Nations' population growth rate applied to the latest actual population.

Appendix 4. Balance of Payments

	2020	2021	2022	2023	2024
	(in millions of U.S. Dollars, unless specified)				
Current Account (I)	11,578	-5,943	-18,261	-12,387	-18,262
Goods	-33,775	-52,806	-69,701	-66,036	-68,863
Exports	48,212	54,228	57,710	55,257	55,056
Imports	81,987	107,034	127,412	121,292	123,920
Services	13,866	14,039	15,895	18,183	13,968
Exports	31,822	33,570	41,122	48,332	51,592
Imports	17,956	19,531	25,226	30,149	37,624
Primary Income	4,101	3,323	4,949	4,342	4,946
Receipts	11,594	11,832	13,024	16,367	17,726
Payments	7,492	8,509	8,076	12,025	12,780
Secondary Income	27,386	29,501	30,596	31,124	31,687
Receipts	28,240	30,452	31,378	32,217	32,876
Payments	854	950	781	1,092	1,190
Capital Account (II)	63	80	23	74	72
Receipts	88	99	86	88	82
Payments	25	19	62	14	10
Financial Account (III)(+ indicates inflows)	6,906	6,433	13,885	13,606	20,204
Net Acquisition of Financial Assets	-13,286	-10,261	-2,533	-4,147	-4,690
Net Incurrence of Liabilities	20,192	16,694	16,419	17,753	24,893
Direct Investment	3,260	9,732	5,631	5,400	6,568
Net Acquisition of Financial Assets	-3,562	-2,251	-3,861	-3,525	-2,872
Net Incurrence of Liabilities	6,822	11,983	9,492	8,925	9,440
Portfolio Investment	1,680	-10,237	1,684	-3,544	4,744
PI:Net Acquisition of Financial Assets	-6,567	-7,809	281	-3,463	-960
PI:Net Incurrence of Liabilities	8,246	-2,428	1,402	-81	5,704
Financial Derivatives	199	-49	48	115	271
Net Acquisition of Financial Assets	796	449	632	779	1,023
Net Incurrence of Liabilities	-596	-498	-584	-664	-753
Other Investment	1,767	6,987	6,523	11,635	8,621
OI:Net Acquisition of Financial Assets	-3,953	-649	415	2,062	-1,881
OI:Net Incurrence of Liabilities	5,720	7,636	6,108	9,573	10,502
Net unclassified items (V)	-2,526	774	-2,911	2,378	-1,405
Overall BOP (I+II+III+V)	16,022	1,345	-7,263	3,672	609
Change in Reserve Assets	16,020	1,345	-7,246	3,681	603
Memorandum items:					
Current Account (% GDP)	3.2	-1.5	-4.5	-2.8	-4.0
Gross International Reserves	110,117	108,794	96,149	103,753	106,256
Import cover	12.3	9.7	7.2	7.6	7.3
Changes in gross reserves	22,278	-1,323	-12,645	7,604	2,503
Nominal GDP (USD billion)	362	394	404	437	462

Source: Philippine authorities; AMRO staff calculations
Note: Import cover is defined as the number of months of average imports of goods and payment of services and primary income that can be financed by reserves.

Appendix 5. Statement of National Government Operations

	2020	2021	2022	2023	2024
	(In percent of GDP, unless specified)				
Government Revenue	15.9	15.5	16.1	15.7	16.7
Tax Revenue	14.0	14.1	14.6	14.1	14.4
Bureau of Internal Revenue (BIR)	10.9	10.7	10.6	10.4	10.8
Net Income & Profits	5.8	5.4	5.6	5.8	5.8
Excise Tax	1.6	1.6	1.4	1.2	1.2
Sales Taxes & Licenses	2.6	2.6	2.6	2.5	3.0
Others	0.8	1.0	0.9	0.9	0.9
Bureau of Customs (BOC)	3.0	3.3	3.9	3.6	3.5
Other Offices	0.1	0.1	0.1	0.1	0.1
Non Tax & Grant	1.9	1.3	1.5	1.6	2.3
Government Expenditure	19.5	23.5	24.1	23.4	21.9
Current Operating Expenditures	14.0	18.5	18.0	17.4	16.0
Personal Services	5.7	6.6	6.6	6.3	5.9
Maintenance and Other Operating	2.9	4.9	4.5	4.0	3.8
Subsidy	1.0	1.3	1.0	0.9	0.7
Allotment to LGUs	2.4	3.5	3.5	3.8	2.9
Interest Payments	1.8	2.1	2.2	2.3	2.6
Tax Expenditure	0.1	0.2	0.2	0.2	0.1
Capital Outlays	5.3	4.9	6.0	5.9	5.8
Infrastructure & Other Capital Outlays	4.5	3.8	4.6	4.6	5.0
Equity	0.0	0.1	0.2	0.0	0.0
Capital Transfers to LGUs	0.8	1.0	1.1	1.2	0.9
Net Lending	0.1	0.1	0.1	0.1	0.1
Government Balance	- 7.6	- 8.6	- 7.3	- 6.2	- 5.7
primary balance	- 5.8	- 6.5	- 5.1	- 3.9	- 3.1
Government Financing	12.0	9.3	6.4	5.1	4.9
External: Net	3.3	1.7	1.8	1.8	1.5
External: Gross	4.1	2.9	2.4	2.3	2.4
Project Loan	0.3	0.6	0.5	0.6	0.4
Program Loans	2.1	0.9	0.6	0.8	1.0
Global Bonds	1.4	0.8	1.1	0.7	1.0
Amortization	0.8	1.2	0.6	0.5	0.9
Domestic: Net	8.7	7.6	4.7	3.3	3.4
Domestic: Gross	11.1	10.4	7.5	6.7	7.3
Treasury Bills: Net	2.6	- 0.8	- 1.8	0.5	0.8
Retail Treasury Bonds	4.6	4.2	2.1	3.8	2.2
Fixed Rate Treasury Bonds	3.9	6.5	5.4	4.8	4.2
Amortization	2.5	2.8	2.8	3.4	3.8
Memorandum items:					
Government Debt	54.6	60.4	60.9	60.1	60.7
Domestic	37.3	42.1	41.8	41.2	41.3
Foreign	17.3	18.3	19.1	18.9	19.4
Short-term(% of Total)	9.8	6.8	3.1	3.7	4.7
Medium-term (% of Total)	23.0	26.6	23.6	16.8	14.5
Long-term (% of Total)	67.3	66.6	69.6	79.4	80.8
Nominal GDP (Trillion, PHP)	18.0	19.4	22.0	24.3	26.4

Source: Philippine authorities; AMRO staff calculations

Note: 1) The tax expenditures pertain to tax expenditure subsidies granted to government agencies/units/instrumentalities, different from the general concept of tax expenditures. 2) Net lending represents advances by the national government (NG) for the servicing of government guaranteed corporate debt during the year, net of repayments on such advances, and includes loan proceeds from program loans relent to government corporations. 3) Short-term debts are borrowings payable within one year; medium-term debts are borrowings payable within 1-5 years; long-term debts are borrowings payable more than 5 years.

Appendix 6. Debt Sustainability Analysis[97,98]

The public debt-to-GDP ratio is projected to gradually decline to 60.5 percent by 2029 after peaking at 62.8 percent in 2026, with gross financing needs (GFNs) also expected to decrease (Table 6.1). The projected economic growth rates for 2025-2026 are 5.2 percent and 5.3 percent, respectively, lower than in previous years due to the elevated global uncertainty and dampened investor sentiment. From 2027 onwards, the economic growth should be able to maintain above 6 percent. The effective interest rate is expected to decline gradually given an easing cycle seen both in domestic and global markets. Meanwhile, the fiscal deficit as a percentage of GDP is expected to continue narrowing, supported by robust revenue growth, despite increased spending to stimulate economic growth and repay interests. Robust real GDP growth will help to reduce the debt ratio, offsetting the effects of the primary deficit and the real interest rate (Figure 6.1 Panel A). Besides, the GFN-to-GDP ratio will gradually decline while remaining above pre-COVID levels due to the repayment of Treasury bonds that were issued in large amounts during the pandemic (Figure 6.1 Panel B).

Table 6.1. Macroeconomic and Fiscal Indicators

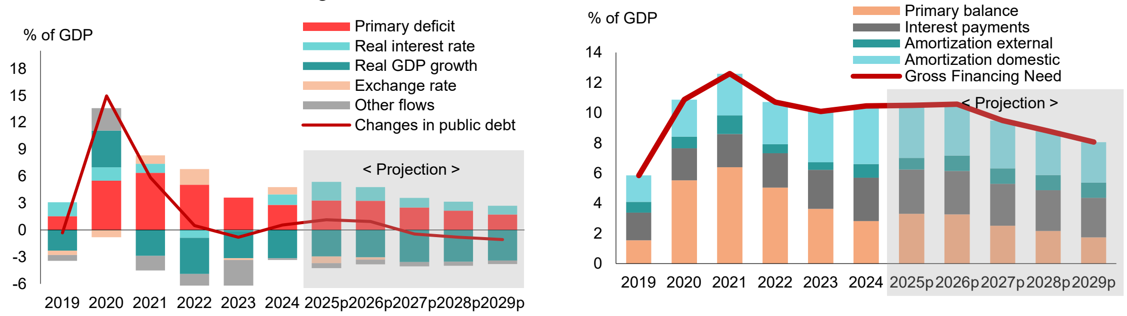
	2019	2020	2021	2022	2023	2024	2025p	2026p	2027p	2028p	2029p
Macroeconomic indicators (Percent)											
Real GDP growth	6.1	-9.5	5.7	7.6	5.5	5.7	5.2	5.3	6.2	6.2	6.0
GDP deflator	0.7	1.7	2.3	5.5	4.6	2.9	1.4	2.2	2.8	2.8	2.8
Effective interest rate	4.9	4.9	4.4	4.3	4.7	5.2	5.1	5.0	4.9	4.8	4.7
Fiscal indicators (Percent of GDP)											
Revenue	16.1	15.9	15.5	16.1	15.7	16.7	15.7	15.7	15.7	15.8	15.8
Expenditure	19.5	23.5	24.1	23.4	21.9	22.4	21.9	21.8	21.0	20.6	20.2
Fiscal balance	-3.4	-7.6	-8.6	-7.3	-6.2	-5.7	-6.2	-6.1	-5.3	-4.9	-4.4
Primary balance	-1.5	-5.5	-6.4	-5.0	-3.6	-2.8	-3.3	-3.3	-2.5	-2.2	-1.7
Public debt	39.6	54.6	60.4	60.9	60.1	60.7	61.8	62.8	62.3	61.5	60.5
Gross financing needs	5.9	10.9	12.6	10.7	10.1	10.5	10.5	10.6	9.5	8.8	8.1

Source: National Authorities; AMRO staff estimates

Figure 6.1. Public Debt and GFN Dynamics

Panel A. Contribution to Changes in Public Debt

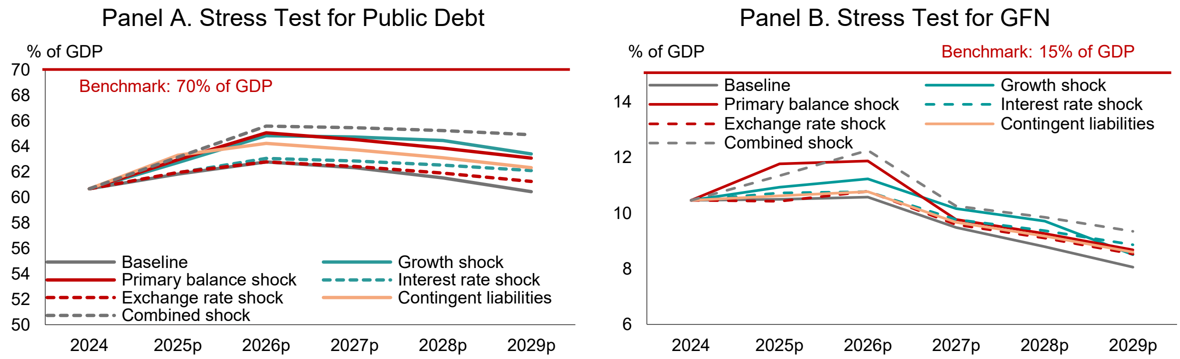
Panel B, Contribution to GFN Levels



Source: National Authorities; AMRO staff estimates

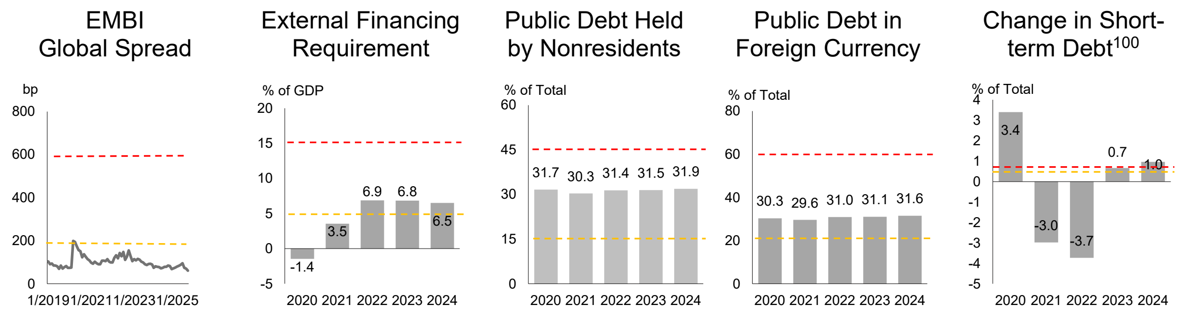
A standard debt sustainability analysis (DSA) indicates that the overall risk to public debt sustainability is low (Figure 6.4). The public debt-to-GDP ratio and the GFN as a percentage of GDP have remained below their respective thresholds over the past five years, and are projected to stay below these thresholds in the baseline and all stress test scenarios throughout the projection period (Figure 6.2). Additionally, market perception of sovereign risk is also low, as evidenced by the Emerging Markets Bond Index (EMBI) spread. While the shares of public debt held by nonresidents and debt in foreign currencies stood at 31.9 percent and 31.6 percent in 2024, respectively, exceeding the lower early warning benchmarks, the rollover risk remains relatively contained, as the share of concessional loans remains high, amounting to around 55.8 percent[99] of the total debt in foreign currencies. However, given the sizable current account deficit, closer attention should be paid to external financing requirements (Figure 6.3).

Figure 6.2. Macro-fiscal Stress Test



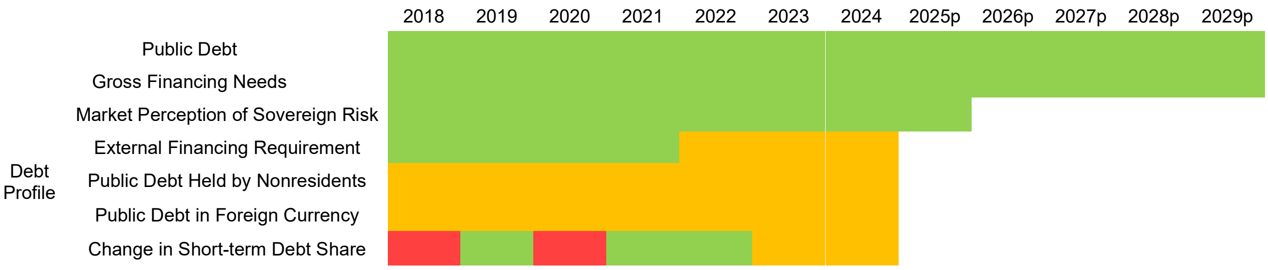
Source: National Authorities; AMRO staff estimates
Note: The scenarios for the stress test are as follows: 1) Real GDP growth shock: one standard deviation or a -1.0 percentage point shock to 2025 and 2026; 2) Primary balance shock: one standard deviation or a -1.1 percent of GDP shock to 2025 and 2026; 3) Interest rate shock: a +1 percentage point shock from 2025; 4) Exchange rate shock: a one-time +5 percentage point shock in 2025; 5) Contingent liability shock: a one-time 1.5 percent of GDP shock in 2025; 6) Combined shock: a combination of growth (half size), primary balance (half size), interest rate and exchange rate shocks.

Figure 6.3. Debt Profile Vulnerabilities



Source: National Authorities; AMRO staff estimates
Note: 1) – – – Lower early warning (50 percent of the benchmark), – – – upper early warning (75 percent of the benchmark); 2) External financing requirements = current account deficit + amortization of public external debt + amortization of private external debt; 3) Short-term debt is based on the original maturity.

Figure 6.4. Heatmap of Public Debt Sustainability



Source: AMRO staff estimates
Note: For Public Debt and Gross Financing Needs, the cell is highlighted in green if the benchmark is not exceeded under all shocks or the baseline, yellow if exceeded under any specific shock but not the baseline, and red if exceeded under the baseline. For Debt Profile, the cell is highlighted in green if the country value is less than the lower early warning benchmark, red if it exceeds the upper early warning benchmark, and yellow if it lies between the lower and upper early warning benchmarks.

Appendix 7. Climate Clipboard – Risks, Responses and Opportunities[101]

<table>
<tr><td colspan="4">A. Physical risks</td></tr>
<tr><td colspan="2">Sources of risk</td><td colspan="2">Potential macro-financial impacts</td></tr>
<tr><td colspan="2">Increased temperature and drought (chronic)
Sea level rise and extreme sea levels (chronic)
Extreme precipitation (acute)
Extreme winds and tropical cyclones (acute)
Exposure
Topped the 2025 World Risk Index with the highest exposure and risks to disaster among 193 countries (World Risk Index 2025)
Ranked as the world's 10th most affected country by climate risk in 1993-2022 (Germanwatch, 2025)
Ranked 116th out of 187 countries in the 2023 Notre Dame-Global Adaptation Index (ND-GAIN, 2025)</td><td colspan="2">In 2024, natural hazards caused around PHP 43 billion of damage, in which 42.1% of costs attributed to agriculture and 57.9% to infrastructure.
Average annual losses from climate-related hazards are estimated to reach 3.2%-7.6% of GDP by 2030, and 5.7%-13.6% by 2040, according to the World Bank Country Climate and Development Report 2022.
Large-scale climate-related hazards could inflict destabilizing losses on insurance companies and other financial intermediaries with direct and indirect exposure to affected industries.</td></tr>
<tr><td colspan="4">B. Transition risks</td></tr>
<tr><td colspan="2">Sources of risk</td><td colspan="2">Potential macro-financial impacts</td></tr>
<tr><td colspan="2">Abrupt shifts in climate-related policies
Technological advances toward a green economy
Changes in consumer preferences and investor expectations
Exposure
Limited exposure to transition risks at present, accounting for only 0.5% of global greenhouse gas (GHG) emissions.</td><td colspan="2">Losses in carbon-intensive energy sectors, such as utilities, transport and industrial sector
Revaluation or repricing of carbon-sensitive assets, which may entail losses for investors holding these assets, which, if not addressed, could lead to systemic risks in the financial system.
Productivity changes</td></tr>
<tr><td colspan="4">C. Adaptation response framework and strategies</td></tr>
<tr><td>National framework</td><td>Key initiatives/strategies</td><td colspan="2">Estimated financing needs and sources</td></tr>
<tr><td rowspan="3">National Adaptation Plan 2023-2050 (NAP, 2024)
The NAP guides the identification and implementation of science-based adaptation measures across eight priority sectors:
(a) agriculture, fisheries and food security;
(b) water resources;
(c) health;
(d) ecosystems and biodiversity;
(e) cultural heritage, population displacement and migration;
(f) land use and human settlements;
(g) livelihoods and industries; and,
(h) energy, transport and communications.</td><td rowspan="3">People's Survival Fund (PSF)
provides technical and financial assistance to enable local communities to implement adaptation measures.
National Disaster Risk Reduction and Management Fund (NDRRMF)
provides relief and rehabilitation to calamity-affected communities and areas to facilitate a return to normalcy.
Local Disaster Risk Reduction and Management Fund (LDRRMF)
requires local governments to set aside 5% of their budgets as a local calamity fund, of which 30% shall be allocated as a Quick Response Fund (QRF) or standby fund for relief and recovery programs.
Formulation of Energy Resiliency Standards
complements programs, strategies and activities on climate change adaptation and disaster risk reduction.
Infrastructure projects
include infrastructure repairs (half of public infrastructure spending) and climate change-resilient infrastructure, such as prevention of overflowing water.</td><td colspan="2">Annual cost of adapting to climate-related hazards over 2020-2059 is USD4.2 billion (Source: United Nations - Economic and Social Commission for Asia and the Pacific, UN-ESCAP)</td></tr>
<tr><td>Domestic financing</td><td>External financing</td></tr>
<tr><td>2026 National Government (NG) Budget: PHP844 billion (86% of total climate change expenditures of PHP984 billion)
Local government units, the private sector, and individuals who support adaptation initiatives</td><td>Asian Development Bank (ADB): Country Partnership Strategy (CPS) for 2024-2029
Various bilateral partnership frameworks and country-level cooperation arrangements
World Bank: Country Partnership Framework (CPF) for 2025-2031, and covering climate change adaptation, among others</td></tr>
<tr><td colspan="4">D. Mitigation response framework and strategies</td></tr>
<tr><td>National framework</td><td>Key initiatives/strategies</td><td colspan="2">Estimated financing needs and sources</td></tr>
<tr><td rowspan="3">Philippine Energy Plan 2020-2050 (2024)
outlines sector-specific strategies to decarbonize the country's energy system.
Nationally Determined Contribution Implementation Plan (NDCIP) (2024)
reduces/avoids emissions from agriculture, waste, industrial process and product use, transport, and energy.
Nationally Determined Contribution, NDC
Economy-wide emission reduction of 75% from the business-as-usual scenario by 2030, of which
2.71% is an unconditional reduction using nationally mobilized resources.
72.29% is a conditional reduction subject to support from developed countries.
Long-term commitment
Decarbonization plans through the Updated Philippine Energy Plan [2023 - 2050]</td><td rowspan="3">Raise the share of renewable energy in the power generation mix to 41.45% by 2030 and 56.92% by 2040
Banned new coal-fired power plants from October 2020
Phase out unabated coal power generation by the 2040s, or as soon as possible thereafter
Promote energy efficiency and conservation via campaigns and implementation of energy usage standards
Adopt a four-point strategy to achieve high clean energy usage:
Accelerate deployment of renewable energy projects
Build and/or develop a green and smart transmission system
Build and/or expand the necessary port infrastructure to support marine-based energy resource development projects
Provide an avenue for voluntary early decommissioning and/or repurposing of existing coal-fired power plants</td><td colspan="2">Potential investment in energy systems over 2020-2050 is USD200 billion to USD300 billion (Source: Asia Investor Group on Climate Change)
Investment requirements to deliver the country's NDC targets are around USD73 billion (PHP4.1 trillion, NDCIP)
For investing clean power generation and decarbonizing the energy system, the cost is up to USD471.49 billion (Philippine Energy Plan, 2023-2050)</td></tr>
<tr><td>Domestic financing</td><td>External financing</td></tr>
<tr><td>2025 NG Budget: PHP139 billion (14% of total climate change expenditures of PHP984 billion)
Green, social, sustainability, and sustainability-linked (GSS+) bonds: USD16.35 billion (from 2017-June 2025)</td><td>Green Climate Fund, and Global Environment Facility, among others</td></tr>
</table>

<table>
<tr><th colspan="3">E. Enabling regulations for climate resilience</th></tr>
<tr><th>E.1. Legal framework</th><th>E.3. GHG accounting framework</th><th>E.5. Sustainable finance frameworks</th></tr>
<tr>
<td>National Framework Strategy on Climate Change (NFSCC) (2010)
National Climate Change Action Plan (NCCAP) 2011-2028 (2011)
Climate Change Act (2012), governing Climate Change Commission (CCC) and climate change regulations</td>
<td>The Philippine Greenhouse Gas Accounting and Reporting Program (PhilGARP)
helps the Philippine businesses prepare GHG inventories, identify GHG reduction opportunities, and participate in programs and projects to reduce GHG emissions.</td>
<td rowspan="3">The Securities and Exchange Commission (SEC) has released guidelines on issuing green, social, and sustainability securities.
Various guidelines for the issuance of green/social/sustainability bonds in the Philippines under ASEAN Bond Standards (2018 -2019)
Rules on Sustainable and Responsible Investment Funds (2022)
Guidelines on the Issuance of Sustainability-Linked Bonds under the ASEAN Sustainability-Linked Bond Standards in the Philippines (2023)
Adoption of the ASEAN Sustainable and Responsible Fund Standards (ASEAN SRFS) (2023)
Guidelines on Philippine Green Equity (2025)
The BSP has introduced guidelines for banks to incorporate sustainability principles into their corporate and risk governance and operations.
Sustainable Finance Framework for Banks (2020)
Environmental and Social Risk Management Framework (2021)
Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks (2022)
Guidance on the Implementation of the Environmental and Social Risk Management (ESRM) System (2022)
Recognition of sustainable finance as an eligible mode of compliance with mandatory credits to agriculture, fisheries and rural development (2022)
Grant of Additional Single Borrower's Limit for Financing Eligible Projects and Zero Percent Reserve Requirement Rate Against Sustainable Bonds (2023)
Issuance of the Philippine Sustainable Finance Taxonomy Guidelines for Banks (2024)
The new Public-Private Partnerships (PPP) Code (2023) introduces the concept of green financing.</td>
</tr>
<tr><th>E.2. Fiscal framework</th><th>E.4. Carbon pricing & taxation frameworks</th></tr>
<tr>
<td>Department of Budget and Management (DBM) and CCC Joint Memorandum Circular (JMC) (2015)
The CCC and DBM work together to develop a climate change expenditure tagging (CCET) system
The CCC is mandated to (i) evaluate and approve NG institution-tagged climate change budgets, and (ii) strengthen the capacities of government and major public agencies, who are required to identify and tag climate-related programs and projects in their budget.
The new Public Expenditure and Financial Accountability (PEFA++) assessment is required to include the Climate-Responsive Public Financial Management assessment and Disaster Resilient and Responsive assessment reports. (2025)</td>
<td>The Department of Finance (DOF), with the support of the World Bank, is developing a Voluntary Carbon Market (VCM) framework and exploring feasibility of instruments and mechanisms suitable to country setting and circumstances.
The Department of Environment and Natural Resources (DENR), designated as the National Carbon Market Authority (NCMA), is developing the Comprehensive National Framework.
The Department of Energy (DOE) issued guidelines for the generation, management and monitoring of carbon credits (Department Circular No. 2025-09-000), establishing the policy framework for carbon credits and providing new opportunities for energy stakeholders.
The NG collects energy taxes through excise taxes on fuels and electricity consumption.</td>
</tr>
</table>

E.6. Financial system

Initiatives	Guidelines	Status
1. Taxonomy	• Philippine Sustainable Finance Taxonomy Guidelines (SFTG) (2024)	• The BSP, in collaboration with the industry, is developing guidance on the integration of the taxonomy into the banks' credit risk management cycle and on the related reporting tool. • The BSP has issued memorandums to clarify the financing treatment of excluded activities and scope of using the taxonomy.
2. Risk management assessment	• The BSP's Sustainable Finance Framework requires banks to develop and implement an environmental and social risk management system (ESRMS) that is commensurate with the size, nature and complexity of their operations. ➢ For example, banks must have in place the tools for monitoring and identifying risks and integrate environmental and social risks into stress testing.	• The BSP will develop climate risk stress testing guidelines in collaboration with the industry to better equip banks in managing exposures to climate and environment-related risks. • The BSP issued complementary guidelines which required banks to incorporate environmental and social (E&S) factors in their credit (lending and investing activities) and operational risk management systems. • The BSP issued Memorandum No. M-2022-042 providing sample approaches and methodologies for the climate stress testing and scenario analysis of banks.
3. Climate-related financial disclosure	• SEC's Sustainability Reporting Guidelines for listed firms. • BSP's requirement for banks to disclose environmental and sustainability risks in their annual reports starting in 2023.	• The BSP's ESG Supervision and Surveillance Group, in coordination with supervising departments, is assessing banks' sustainability disclosures in their annual reports.
4. Capacity building	• Inter-agency Technical Working Group on Sustainable Finance (ITSF). • The BSP articulated its 2024-2029 Enterprise Strategy to strengthen response to climate and nature concerns.	• The scope of ITSF membership is expanded and a more comprehensive approach to sustainable finance is developed. • A Center of Excellence for Sustainable Finance is established as a central hub for capacity building, policy support, and market development in sustainable finance. • The BSP created a Sustainability Office to promote sustainability in the BSP's policy formulation and advocacy, and operations. • The DOF is developing a climate finance dashboard to provide a visual presentation of all ongoing and pipeline projects.
5. Regulatory incentives	• Measures to incentivize banks to finance green or sustainable projects, including transitional activities targeting decarbonization	• The BSP is considering more measures to incentivize banks to promote green lending, such as the use of preferential rediscount rates or provisions for higher loan values.

F. Potential opportunities from the low-carbon transition

- Enhancing energy security by using a larger share of renewable energy resources:
  - ➢ Opening renewable energy to full foreign ownership (DOE Circular No. 2022-11-0034).
  - ➢ Introducing the Green Energy Auction Program (GEAP) by conducting competitive auctions for clean power supply contracts.
  - ➢ Expanding consumer choice participation via, for example, the Green Energy Option Program (GEOP) and the Net-Metering Program.
- Electric vehicles (EVs)
  - ➢ The Philippines has a vast supply of the required rare earth minerals necessary to produce EV batteries.
  - ➢ Setting up a Green Lane for Strategic Investments, such as EV infrastructure.

Source: National authorities; media reports; AMRO staff

Appendix 8. Data Adequacy for Surveillance Purposes: A Preliminary Assessment

Surveillance Areas	Data Availability(i)	Reporting Frequency/Timeliness(ii)	Data Quality(iii)	Consistency(iv)	Others, if Any(v)
National Accounts	Available	Quarterly data for the expenditure and production approaches is available with a normal time lag of two months after the reference quarter	-	-	-
Balance of Payments (BoP) and External Position	Available	BoP data is available quarterly with a normal time lag of two months and three weeks after the reference month. External debt data is available with a normal time lag of two months and three weeks after the reference quarter	-	-	-
State Budget and Government/ External Debt	Available	Central government budget and public finance data is available on a monthly basis with a normal time lag of one to two months after the reference month. Data on central government domestic and foreign debt outstanding is available monthly with a normal time lag of one month after the reference month	-	-	-
Money Supply and Credit Growth	Available	Money supply data is available on a monthly basis with a normal time lag of one month after the reference month. Bank loan data is available quarterly with a normal time lag of two-and-a-half to three months after the reference quarter	-	-	-
Financial Sector Soundness Indicators	Available	Quarterly indicators are available with a time lag of one quarter	-	-	-
SOE Statistics	SOE statistics have yet to be made available on a frequent basis	-	-	-	-

Notes:
1. Data availability refers to whether the official data is available for public access by any means.
2. Reporting frequency refers to the time interval between the publishing of the available data. Timeliness refers to how up to date the published data is relative to the publication date.
3. Data quality refers to the accuracy and reliability of the available data after taking into account the data methodologies.
4. Consistency refers to both internal consistency within the data series itself and its horizontal consistency with other data series of either the same or different categories.
5. Other criteria might apply, if relevant. Examples include but are not limited to potential areas of improvement in data adequacy.

Source: AMRO staff compilation. This preliminary assessment will form the “Supplementary Data Adequacy Assessment” in the EPRD Matrix.

Annexes: Selected Issues

1. Assessing the BSP's Policy Rate Decisions: An Empirical Perspective[102]

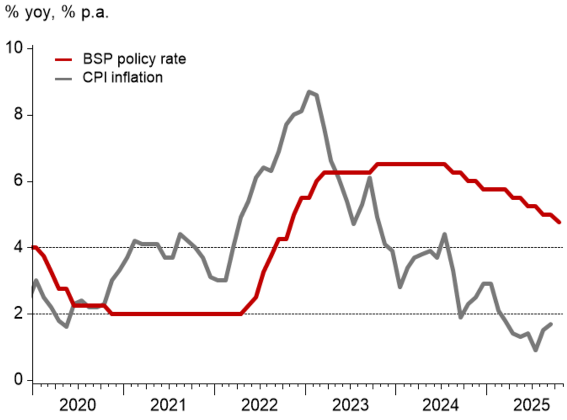
Prepared by Andrew Tsang

This Selected Issue empirically assesses the BSP's policy rate decisions using an modified Taylor-rule framework, highlighting inflation as the dominant driver over output gaps or other external variables, such as interest rate differentials, commodity prices and the peso exchange rate. The empirical results support a data-driven, gradualist approach that balances inflation stabilization with growth support amid global uncertainties, while acknowledging estimation challenges related to output gaps and potential growth after the pandemic. The results also suggest that the current pace of the BSP monetary policy normalization is appropriate.

Introduction

1. The BSP has shifted its monetary policy stance amid easing inflation pressures. Under its inflation-targeting framework, the primary objective of the BSP's monetary policy is to safeguard price stability conducive to a balanced and sustainable economic growth while also maintaining financial stability. The policy rate serves as its main instrument to influence domestic demand and anchor inflation expectations. Between 2022 and 2023, the BSP raised its policy rate decisively by a cumulative 450 basis points to curb heightened inflationary pressures. With inflationary pressures easing thereafter, the BSP shifted its focus toward balancing inflation stabilization with growth support amid elevated global uncertainties, and embarked on an easing cycle starting in August 2024 (Figure A1.1). Against this backdrop, this Selected Issue conducts an empirical analysis of the key factors related to the BSP's policy rate decisions using a modified Taylor-rule model to assess the current policy stance, available policy space and possible future directions.

Figure A1.1. CPI Inflation and BSP Policy Rate



Source: BSP; PSA via Haver Analytics
Note: The dotted lines indicate the BSP's 2-4% inflation target range.

2. The Taylor-rule model provides an ex post, parsimonious description of central bank decisions. As noted by Bernanke (2015), the Taylor rule is a useful descriptive device for policy rate decisions, but should not be viewed as an automatic prescription for setting rates. The original Taylor rule illustrated whether the Fed's monetary policy was broadly consistent with fundamentals by assessing the responsiveness of policy rates to deviations of inflation and output from their targets. In practice, however, the model has clear limitations. Coefficient estimates are sensitive to specification choices and data revisions, while actual policy decisions are informed by a much broader set of considerations—including external conditions, financial stability, expectations, and sometimes nonpublic information. Moreover, the rule is intended only as a reference framework for interpreting policy behavior, not as a mechanical prescription. Thus, this analysis is not a prescriptive rule, but rather provides an analytical tool to illustrate how macroeconomic fundamentals relate to the BSP's broader decision-making framework.[103]

Modified Taylor Rule Estimation

3. In this study, an error correction model (ECM) version of the Taylor-rule framework is used to describe how the BSP adjusts its policy rate. Specifically, besides responding to inflation and real economic activities, the ECM allows external and financial conditions to influence short-run dynamics. In this framework, the policy rate follows a long-run "target rule," while short-run deviations from the equilibrium are corrected gradually through policy inertia and responses to near-term shocks.[104]

In the long run, the policy rate co-moves with fundamentals consistent with a Taylor-type rule:

$$Policy\ rate_t = \theta_0 + \theta_1 Inflation\ gap_t + \theta_2 Output\ gap_t + u_t \tag{A1.1}$$

The short-run adjustment is modeled as:

$$\begin{aligned}\Delta(Policy\ rate_t) = \alpha - \rho(Policy\ rate_{t-1} - \theta_1 Inflation\ gap_{t-1} - \theta_2 Output\ gap_{t-1}) \\ + \sum_k \gamma_k Other\ variables_{kt} + \sum_{j=1}^{4} \phi_j \Delta\left(Policy\ rate_{t-j}\right) + \varepsilon_t\end{aligned} \tag{A1.2}$$

where $\rho < 0$ implies the speed of adjustment toward the long-run rule; θ_1 is expected to be positive as a higher (lower) inflation gap prompts tightening (easing); θ_2 is expected to be positive, reflecting countercyclical stabilization; $\{\phi_j\}$ captures policy inertia up to four quarters; and $Other\ variables_{kt}$ comprises a set of additional short-run drivers and dummies.

Thus, the model can be rewritten in a reduced form:

$$\begin{aligned}\Delta(Policy\ rate_t) = \alpha + \beta_0 Policy\ rate_{t-1} + \beta_1 Inflation\ gap_{t-1} + \beta_2 Output\ gap_{t-1} \\ + \sum_k \gamma_k Other\ variables_{kt} + \sum_{j=1}^{4} \phi_j \Delta\left(Policy\ rate_{t-j}\right) + \varepsilon_t\end{aligned} \tag{A1.3}$$

where $\beta_0 = -\rho$, $\beta_1 / \beta_0 = -\theta_1$, $\beta_2 / \beta_0 = -\theta_2$

4. The estimation results show that inflation has been the dominant driver of the BSP's policy rate decisions. Table A1.1 presents the estimates for the modified Taylor-rule models, using quarterly data from Q1 2005-Q2 2025.

- **Conventional Taylor rule.** The coefficient of the lagged inflation gap (β_1) is positive and highly significant, while the coefficient of the lagged output gap (β_2) is insignificant. Thus, the implied long-run coefficients are about 1.3 for the inflation gap[105]—consistent with the Taylor principle (Taylor 1993), implying that policy rate changes have responded by more than one-for-one to inflation changes to anchor inflation expectations—but have responded by only 0.1 for the output gap.[106] These results underscore that the BSP's policy adjustments have primarily responded to deviations of inflation from its target, consistent with its inflation-targeting mandate. Meanwhile, a negative coefficient of the lagged policy rate level (β_0) indicates gradual correction toward the long-run rule.

- **External dynamics.** In Model 1, the coefficient of the interest rate differential is insignificant, suggesting that the BSP does not set policy rates to maintain a fixed spread against U.S. rates due to less concerned on massive capital outflows, but rather adjusts independently in response to domestic inflation conditions.[107] In Model 2, peso depreciation and commodity price increases tend to tighten the monetary policy stance via near-term inflation pressures, though the coefficients are insignificant at the 5 percent level, as rate changes driven by a supply shock may be captured by highly sizable estimates of the coefficient of lagged inflation gap (β_1).

- **Policy inertia.** The estimation results also point to gradualism in the BSP's decision-making. The sum of coefficients for the distributed lags of past policy changes is close to zero, reflecting that adjustments are smoothed over time,[108] which ensures that inflationary pressures are addressed through consistent policy action.

- **Crisis and regime effects.** The dummy variable for the global financial crisis (GFC) is negative and highly significant, consistent with sharp rate cuts during 2008-09. The interest rate corridor (IRC) dummy is negative but insignificant, suggesting that the transition to the corridor framework altered the mechanics of policy transmission but did not fundamentally change the inflation-focused monetary policy.

Table A1.1. Estimation Results under Modified Taylor Rule Models

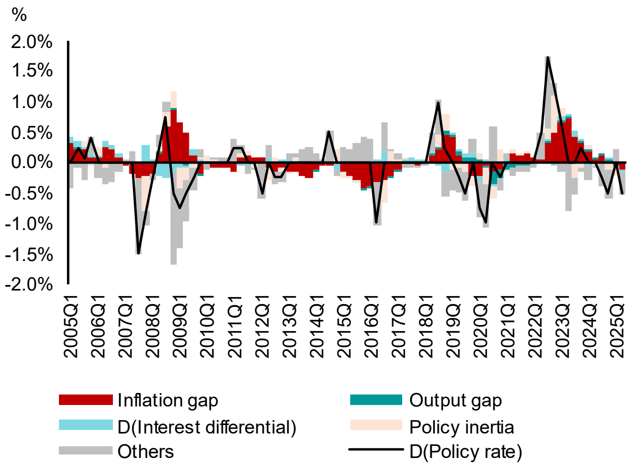
Dependent variable: Δ(*Policy rate* $_t$)

	Model 1		Model 2	
Constant	0.005	**	0.005	**
	(0.002)		(0.002)	
Policy rate $_{t-1}$	-0.105	**	-0.091	**
	(0.043)		(0.041)	
Inflation gap $_{t-1}$	0.138	***	0.125	***
	(0.047)		(0.046)	
Output gap $_{t-1}$	0.017		0.009	
	(0.022)		(0.020)	
Δ(*Interest rate differential* $_{t-1}$)	-0.191			
	(0.156)			
Δln(*Commodity prices* $_{t-1}$)			0.007	
			(0.006)	
Δln(*Peso exchange rate* $_{t-1}$)			0.033	*
			(0.017)	
Dummy for GFC	-0.010	***	-0.011	***
	(0.003)		(0.004)	
Dummy for IRC	-0.001		-0.002	*
	(0.001)		(0.001)	
Δ(*Policy rate* $_{t-1}$)	0.387	**	0.231	*
	(0.155)		(0.124)	
Δ(*Policy rate* $_{t-2}$)	-0.190		-0.105	
	(0.118)		(0.117)	
Δ(*Policy rate* $_{t-3}$)	-0.030		0.061	
	(0.111)		(0.103)	
Δ(*Policy rate* $_{t-4}$)	-0.043		0.009	
	(0.085)		(0.083)	
Implied θ_1	1.314		1.374	
Implied θ_2	0.162		0.099	
Adjusted R-squared	0.392		0.402	

Source: BSP; PSA; Haver Analytics; AMRO staff estimates
Note: The robust standard errors are in parentheses. ***, ** and * respectively indicate significance at the 1%, 5% and 10% levels.

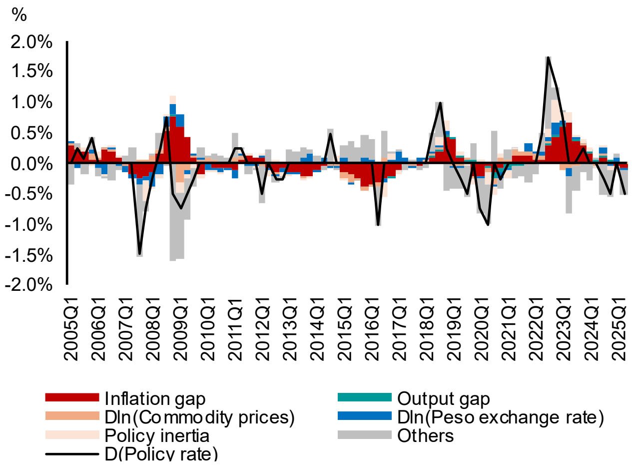
5. A historical decomposition of the Taylor-rule model estimates shows that policy rate changes have broadly aligned with the BSP's inflation-targeting mandate. As the historical decomposition for Model 1 shown in Figure A1.2, inflation developments were the dominant driver of policy changes in major tightening episodes, for example, during 2008, 2018-19 and 2022-23. Policy inertia accounted for smaller but non-negligible adjustments, while the output gap contributed little, consistent with the BSP's priority on price stability over short-term growth fluctuations. The BSP lowered its policy rate sharply during the global financial crisis and the COVID-19 pandemic to cushion growth, while tightening aggressively during 2022-23 to counter inflationary pressures. Since the IRC was introduced in 2016, policy rate changes have been smaller, reflecting an increased emphasis on signaling and gradualism. The historical decomposition for Model 2 in Figure A1.3 shows a similar pattern, while part of the residual "Others" in Model 1 could be partly explained by the movements of international commodity prices. The finding underscores the BSP's independent but globally informed stance.

Figure A1.2. Historical Decomposition of Factors Explaining Rate Changes (Model 1)



Source: BSP; PSA; Haver Analytics; AMRO staff estimates
Note: D represents difference.

Figure A1.3. Historical Decomposition of Factors Explaining Rate Changes (Model 2)



Source: BSP; PSA; Haver Analytics; AMRO staff estimates
Note: D represents difference, and Dln means log-difference.

Policy Discussion

6. Taken together, the empirical results suggest that inflation stabilization has been the cornerstone of BSP monetary policy. Output gap estimates and other external variables, including external funding and imported prices, have not been decisive factors, reinforcing the view that policy credibility rests on firmly anchoring inflation expectations. At the same time, the Taylor-rule framework has limitations: it cannot capture the forward-looking judgments or broader trade-offs that policymakers face, such as financial stability concerns or the impact of supply shocks. Additionally, as supporting economic growth is one main concern of policymakers, the estimation uncertainties of the output gap, particularly the assumptions or views on post-pandemic potential growth, could affect policy decisions (see Allon-Pineda 2025). The Taylor-rule model should therefore be viewed as a benchmark that highlights the historical description of inflation in the BSP's policy decisions, but not as a mechanical prescription for future decisions.

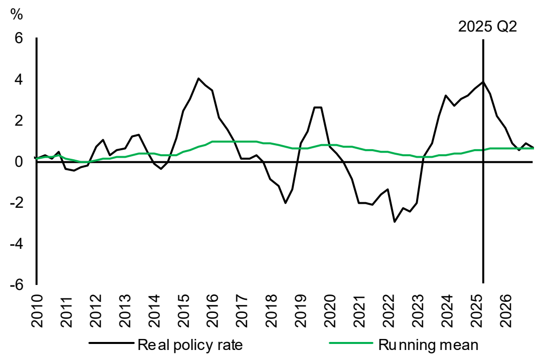
7. Nevertheless, by applying the above Taylor-rule estimation and AMRO's projections on growth and inflation, rates implied by the Taylor rule (Figure A1.5) could provide a reference for policy discussions.

- **Policy stance.** Monetary policy has normalized and become less tight after aggressive rate hikes that were implemented to combat high inflation, as inflation has stabilized and inflation expectations remain well anchored. However, the current real policy rate, at around 3.3 percent in September 2025, remains above its historical average of 0.61 percent, which acts as a proxy of the neutral level. The elevated real policy rate indicates that monetary conditions are still tight (Figure A1.4).

- **Policy space.** The decline in inflation since late 2023 and the BSP's subsequent policy rate cuts have provided room for a more accommodative policy stance.

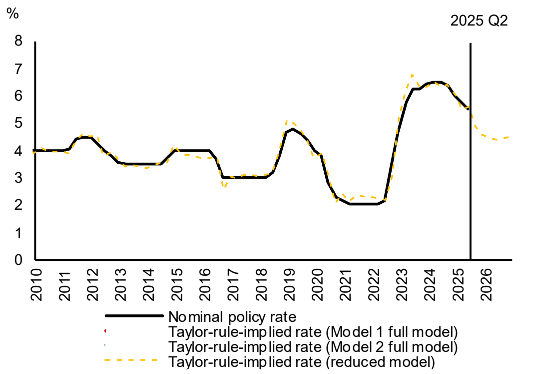
- **Policy direction.** Based on AMRO staff's GDP growth and inflation projections, a combination of the present modified Taylor-rule model estimates and the neutral interest rate assessments supports a gradual easing of the policy rate, which is expected to continue at the current pace until the end of 2026 (Figure A1.5). However, given the expected closing of the output gap and potential inflationary pressures from supply shocks, the BSP should maintain a flexible and cautious approach to the pace and depth of policy adjustments.

Figure A1.4. Real Policy Rate and its Long-term Average



Source: BSP; PSA; Haver Analytics; AMRO staff estimates
Note: The real policy rate is calculated as the nominal policy rate minus the year-on-year CPI inflation rate for the same month. The running mean of historical average of the real policy rate refers to the average of monthly real policy rates from January 2010 up to the corresponding period. Forecasts for Q3 2025-Q4 2026 are based on projected Taylor-rule-implied rates using the full model of Model 1, as well as AMRO's GDP and CPI inflation projections and assumptions about economic development.

Figure A1.5. Taylor-rule-implied Rates



Source: BSP; PSA; Haver Analytics; AMRO staff estimates
Note: Taylor-rule-implied rates from Q3 2025-Q4 2026 are projected by using AMRO's GDP and CPI inflation projections and assumptions about economic development. The reduced model is the same for both Model 1 and Model 2, as the output gap, interest rate differential (or commodity prices and exchange rate) and IRC dummy are dropped given they are insignificant at 5 percent significance level.

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2. Rapid Growth in Consumer Loan Market: Boon for Financial Inclusion or Risk to Stability?[109]

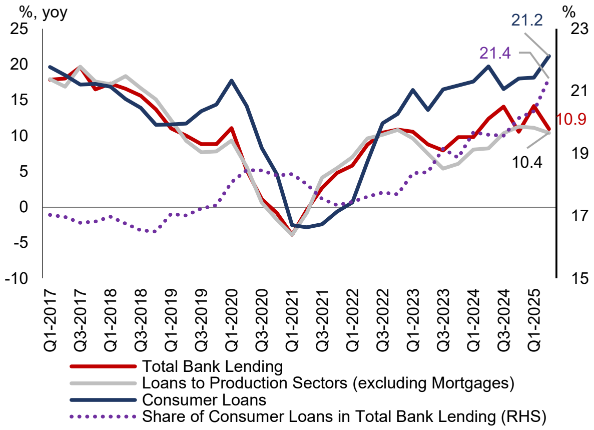
Prepared by Shunsuke Endo and Kuchsa Dy

The sharp increase of consumer loans in the Philippines in recent years raises the question of whether this trend reflects desirable progress in financial inclusion or signals rising risks to financial stability. This Selected Issue carefully examines the background of the consumer loan surge and discusses policy challenges in reconciling financial inclusion with financial stability.

Trend of Consumer Lending in the Philippines

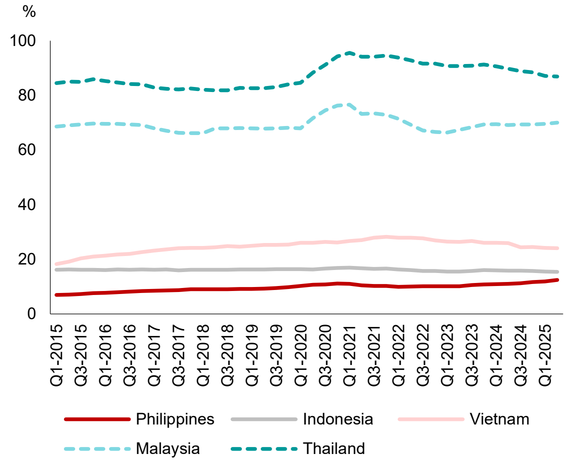
1. **Consumer loans[110] in the Philippines have increased significantly since the second half of 2022, outpacing the growth of total loans following a decline during the COVID-19 outbreak.** Average consumer loan growth from the second half of 2022 to the second quarter of 2025 registered 16.6 percent year on year, exceeding the 10.8 percent in average total bank lending growth year on year during the same period. As a result, consumer loans in the total bank lending of the banking sector rose from around 17 percent before the pandemic to 21.4 percent as of Q2 2025 (Figure A2.1). This trend is also consistent with the household debt-to-GDP ratio in the Philippines, which has been on the rise—a unique development compared with regional peers—while still staying on the lower side (Figure A2.2).

Figure A2.1. Loan Growth and Share of Consumer Loans in Total Loans



Source: BSP; AMRO staff calculations
Note: Data are as of the end of the periods indicated. Total bank lending refers to total loans, under the "Loans Outstanding for Production and Household Consumption" statistics.

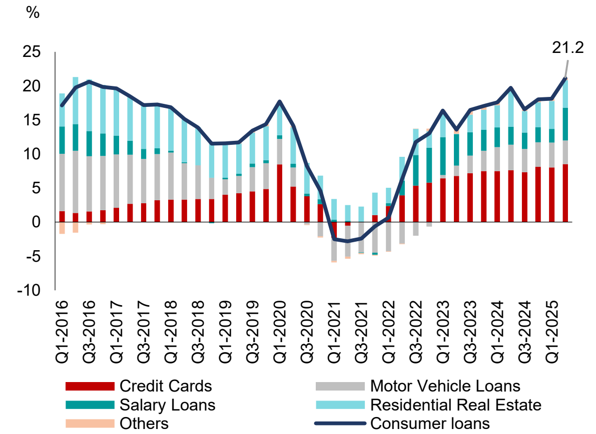
Figure A2.2. Household Debt to GDP



Source: CEIC; Institute of International Finance; AMRO staff calculations
Note: Household data are as of the end of the periods indicated.

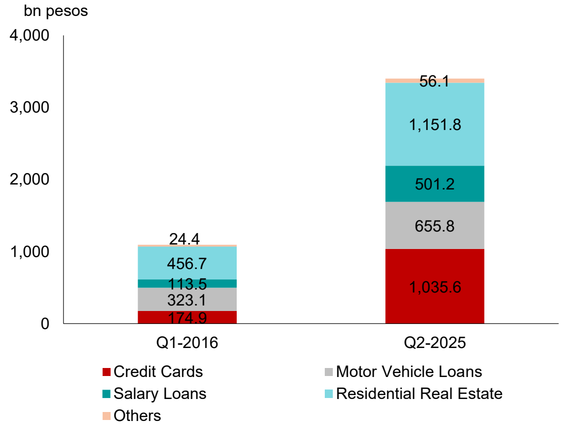
2. **The recent acceleration in consumer loan growth is primarily driven by credit card loans.** While the pre-pandemic growth in consumer loans was generally led by loans for motor vehicles and residential real estate, the increase in recent years has been mainly attributable to credit card loans, which have accounted for approximately 40-50 percent of the growth since the second half of 2022 (Figure A2.3). Correspondingly, the outstanding amount of credit card loans has built up and its share in total consumer loans increased remarkably from 16.0 percent in Q1 2016 to 30.5 percent in Q2 2025, followed by salary loans from 10.4 percent to 14.7 percent, both of which are considered unsecured loans (Figure A2.4). These loans need to be carefully monitored given their unsecured nature due to the absence of collateral assets.

Figure A2.3. Consumer Loan Growth and Its Contribution



Source: BSP; AMRO staff calculations
Note: Data are as of the end of the periods indicated.

Figure A2.4. Consumer Loans by Type, Q2 2025 vs Q1 2016

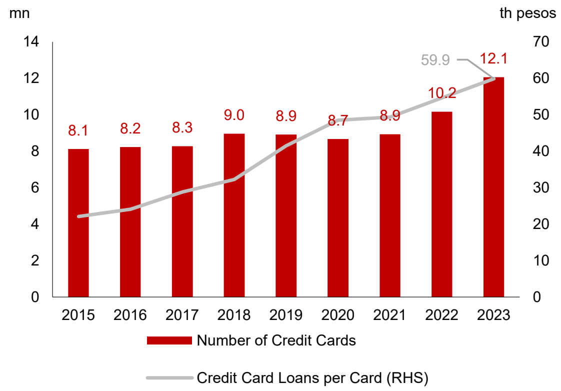


Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated.

Boon for Financial Inclusion or Risk to Stability?

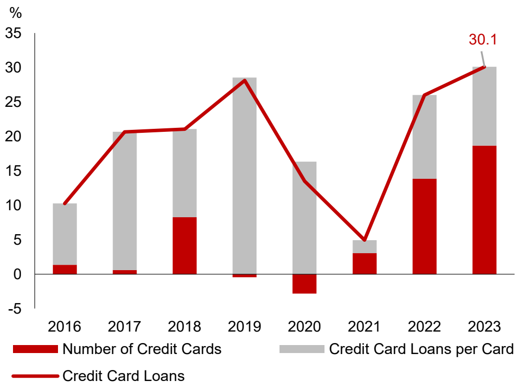
3. **The surge in credit card loans can largely be attributed to the growing number of credit cards, partly reflecting progress in digital financial inclusion.** While credit card loans per card have increased at a stable pace since 2015, the number of credit cards has accelerated noticeably since 2022 (Figure A2.5). Thus, whereas the pre-pandemic increase in credit card loans was mainly driven by higher loans per card, the post-pandemic growth has primarily stemmed from a rise in the number of credit cards since 2022, making a notable shift between the periods before and after COVID-19 (Figure A2.6). This indicates that credit card services have reached a broader segment of the population through both expanded access to credit card services and improved access to digital finance, particularly by facilitating cashless transactions.

Figure A2.5. Number of Credit Cards Issued and Credit Card Loans per Card



Source: BSP; IMF Finance Access Survey; AMRO staff calculations.
Note: Credit card loans per card issued are calculated by dividing total credit card loans with the total number of credit cards issued.

Figure A2.6. Growth of Credit Card Loans and Contribution

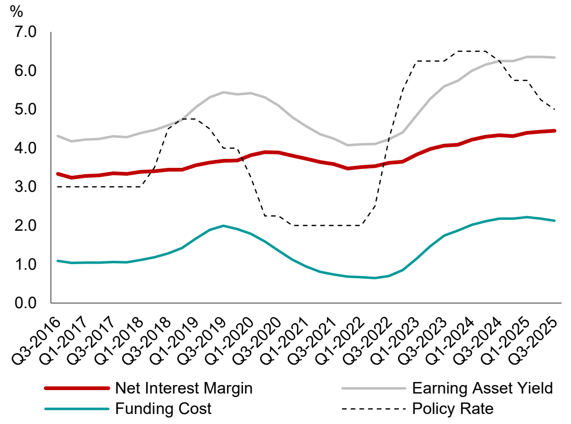


Source: BSP; IMF Finance Access Survey; AMRO staff calculations.

4. The growth in consumer lending, due in part to progress in financial inclusion, is likely underpinned by both credit supply-side and demand-side factors.

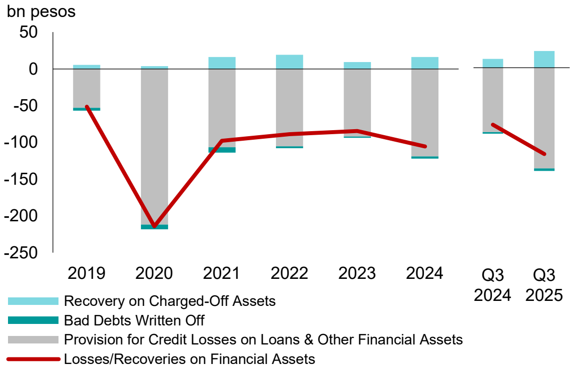
- On the supply side, banks have allocated resources toward high-yielding consumer lending to boost profitability.[111] While there are issues of strength and lag in monetary policy transmission, banks may have continued to gradually improve net interest margins partially supported by their strategic shift toward consumer lending of higher yields despite the onset of a policy rate easing cycle in 2024 (Figure A2.7). Thus, banks may have tilted more toward business models that generate higher-yield income while simultaneously incurring more credit costs through provisioning for credit losses and bad debt write-offs, which they consider manageable (Figure A2.8).
- On the demand side, the Consumer Expectations Survey Report in Q3 2025 indicates that more households intend to apply for loans over the next 12 months compared with a year earlier, with the middle-income group registering the highest percentage at 18.1 percent among all income groups.[112] Anecdotal evidence suggests that consumers have increasingly tapped into consumer credit either to smoothen their cash flow and enhance their standard of living or to shift their funding sources from informal to formal credit with a lower interest burden. Consumers have also increasingly embraced digital payments over cash and adopted new payment models, such as Buy Now Pay Later (BNPL), which may have contributed to the rise in credit card loans as well.

Figure A2.7. Net Interest Margin



Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated. Data except for the policy rate corresponds to relevant assets, including consumer loans.

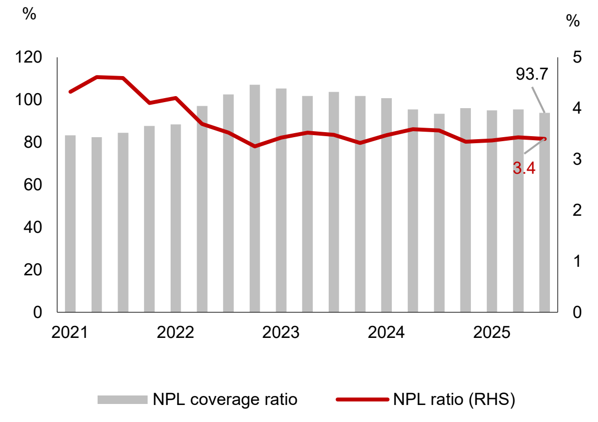
Figure A2.8. Credit Costs in Philippine Banking System



Source: BSP; AMRO staff calculations.
Note: Data represent quarterly figures (e.g., Q3 = total for July, August, and September). "Losses/Recoveries on Financial Assets" comprise "Provision for Credit Losses on Loans & Other Financial Assets", "Bad Debts Written Off", and "Recovery on Charged-Off Assets", encompassing expenses related not only to loans but also other financial assets. Expenses related to NPLs are represented simply as credit costs in the main text.

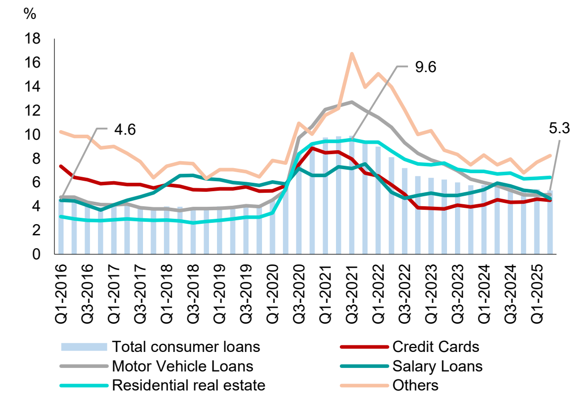
5. In the near term, the surge in consumer lending is unlikely to undermine the soundness of the banking system. The nonperforming loan (NPL) ratio and NPL coverage ratio in the overall loan portfolio have remained broadly stable, not showing signs of overheating (Figure A2.9). Similarly, the NPL ratio in consumer loans has continued to decline gradually albeit remaining higher than before the pandemic (Figure A2.10). Credit card loan performance has not yet shown clear signs of deterioration either, with most transactors consistently paying their balance in full each month to avoid interest payments steadily from 2019 to 2025.[113] Considering that the banks are also maintaining ample capital buffers, the banking system is operating effectively by striking a balance between higher profits and financial stability.

Figure A2.9. NPL and NPL Coverage Ratios



Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated. The data corresponds to total loans, including consumer loans.

Figure A2.10. NPL Ratios in Consumer Loans

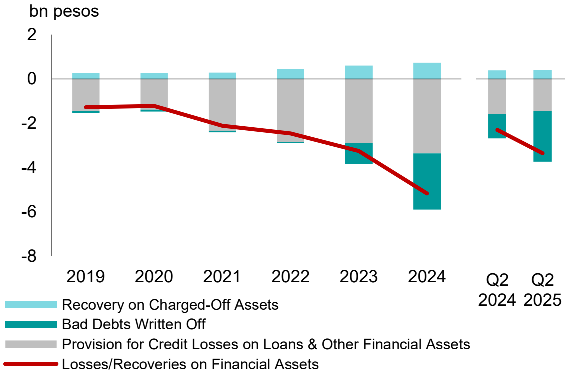


Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated.

6. **Looking ahead, the rapid expansion of credit card and salary loans warrants closer monitoring.** The NPL ratio of credit cards can be calculated as the weighted average of NPL ratios of the revolver and transactor segments.[114] Assuming the overall credit card NPL ratio is 4.5 percent based on the actual figure in June 2025, that revolvers and transactors account for 40 percent and 60 percent of the portfolio, respectively, and that transactors repay their balances in full (meaning, the transactors' NPL ratio is 0 percent), then the NPL ratio for the revolver segment would be 11.3 percent. Given that the NPL ratio of revolvers is higher than transactors by default, this simple exercise stresses the importance of monitoring the following risks to guard against a possible economic shock: (i) the risk of rising NPLs among revolvers, (ii) the risk of transactors transitioning into revolvers, and (iii) the risk that rising expenses for write-offs and loan loss provisions, which could be amplified by continuing rapid credit expansion, may weigh on profitability. In addition to credit card loans, salary loans have grown faster than other collateralized loans, such as motor vehicle and residential real estate loans. Given their unsecured nature, this rapid expansion warrants closer monitoring in light of borrowers' employment stability and repayment capacity to limit over-indebtedness.[115]

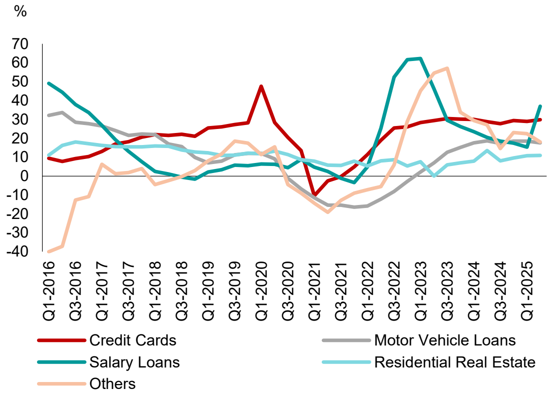
7. **While solid in the near term, the Philippine banking system is in a phase where pockets of vulnerabilities could be gradually building up.** Rural and cooperative banks have raised credit costs due to bad debt write-offs (Figure A2.11), although still managing to report an all-time high in their net profits in December 2024.[116] Other categories of banks, such as universal and commercial banks and thrift banks, have shown rising provisioning costs but not significant bad debt write-offs while recording an all-time high in their net profits,[117] as with the rural and cooperative banks. While absorbing credit costs within net profits on an aggregate basis, there could be some banks that are more vulnerable with rapid growth in unsecured loans, in particular credit card loans. Given that high growth rates in consumer loans will unlikely be sustainable for an extended period, closer monitoring is warranted as to whether potentially looser lending standards would deteriorate asset quality, particularly in vulnerable borrower segments as these pockets of vulnerabilities could be quickly amplified under negative shocks through interlinkages among banks (Figure A2.12).

Figure A2.11. Credit Costs in Rural and Cooperative Banks



Source: BSP; AMRO staff calculations.
Note: Data represent quarterly figures (e.g., Q2 = total for April, May, and June). "Losses/Recoveries on Financial Assets" comprise "Provision for Credit Losses on Loans & Other Financial Assets", "Bad Debts Written Off", and "Recovery on Charged-Off Assets", encompassing expenses related to not only loans but also other financial assets. Expenses related to NPLs are represented simply as credit costs in the main text.

Figure A2.12. Consumer Loan Growth by Segment



Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated.

Policy Discussion

8. **While AMRO staff assesses that financial inclusion and financial stability are broadly compatible at present, this balance could gradually become destabilized with sustained high growth in consumer lending.** The relationship between financial inclusion and financial stability is generally considered to be highly specific to the country and context, but correlation analyses in the literature suggest a trade-off between the two on average in consumer lending (Cihák, Mare, and Melecky 2021).[118] In the context of the Philippine economy, excessive expansion of consumer credit amid intensifying competition among banks in the consumer loan market could lead to a relaxation of lending standards or a concentration of credit in certain vulnerable groups, both of which could elevate financial stability risks.

9. **Nonetheless, it is still possible to achieve synergy between financial inclusion and stability.** In the Philippines, the wider use of credit cards can help new entrants to the lending market build credit histories and broaden their access to other loan products. Furthermore, the continued expansion of financial inclusion, while leveraging digital tools, may lower the cost of access to financial services, improve consumers' trust in the formal financial system, and curb excessive credit expansion outside the regulatory perimeter, thus enhancing systemic stability. Moreover, as long as financial stability is maintained, further progress in financial inclusion could expand access to financial services for more consumers, enliven their economic activity, and ultimately contribute to sustainable economic growth, reinforcing financial stability. This also highlights the importance of promoting financial education to help consumers make effective financial decisions and ensuring that banks provide suitable loan products designed with affordability to consumers in mind.

10. **To sustain a financial system that balances inclusion and stability, banks should continue to strive to offer affordable products that support their customers' financial well-being while enhancing their credit risk management, particularly in light of increases in credit costs.** Affordable financial products enable consumers to maintain suitable use of financial services, thereby pushing financial inclusion further. On the risk management side, by type of consumer loan, rapidly growing credit card loans and, to a lesser extent, salary loans should warrant closer monitoring given their unsecured nature (Table

A2.1). As credit expands, particularly to new customer segments, banks should avoid complacency in credit screening by reassessing their scoring models and reviewing internal rating systems, taking into account recent credit cost performance. It may also be helpful to identify vulnerable borrower cohorts by product and by borrower type through stress testing and scenario analysis, and use these insights to strengthen credit monitoring. Where necessary, banks could tighten credit standards or apply more stringent borrower eligibility assessments.

Table A2.1. Types of Consumer Loans and Selected Risk Management Considerations

Type	Share	Description	Selected Risk Management Considerations
Credit Card Loans	30.5%	The total outstanding balance of credit cardholders arising from purchases of goods and services, cash advances, annual membership/renewal fees, interest, penalties, insurance fees, processing/service fees and other charges.	➢ Monitoring borrowers' repayment capacity given the inherently high credit risk due to the absence of collateral. ➢ Managing revolvers, who make partial payments and incur interest charges, as distinct from transactors, who consistently pay their balances in full to avoid interest payment. ➢ Ensuring transparency and compliance with regulatory interest and fee ceilings.
Motor Vehicle Loans	19.3%	Loans granted to individuals to buy motorized land transport vehicles primarily for personal use.	➢ Effective collateral management, including accurate valuation, depreciation risk associated with movable assets, and the risk of asset impairment if a crash or theft occurs. ➢ Managing the potential mismatch between loan tenor and the vehicle's useful life, which can affect collateral coverage and repayment reliability. ➢ Establishing robust foreclosure and recovery procedures in the event of borrower default.
Salary Loans	14.7%	Loans for a broad range of consumption purposes, granted to individuals mainly on the basis of regular salary, pension or other fixed compensation, where repayment would come from such future cash flows.	➢ Monitoring borrowers' employment stability, particularly given the unsecured nature of the loans. ➢ Tracking borrowers' debt service ratios to ensure affordability and limit over-indebtedness.
Residential Real Estate Loans	33.9%	Loans to individual households for occupancy.	➢ Assessing borrowers' repayment capacity using key indicators, such as loan-to-value and debt-to-income ratios. ➢ Managing maturity mismatches and the associated interest rate risk.

Source: BSP; AMRO staff compilation.
Note: The percentage refers to the proportion of each loan type in total consumer loans as of the end of June 2025.

11. Authorities should continue to promote responsible lending behavior by banks and remain vigilant in monitoring emerging risks to deploy timely policy responses. Authorities should continue to ensure full implementation of the existing regulations that aim to protect financial consumers.[119] If excessive credit card loan growth is seen to be driven by aggressive marketing or predatory lending, it would be crucial to prompt banks to practice more responsible lending. The BSP might also consider deepening dialogue with lenders on risk management and addressing the implementation gap in order to encourage responsible lending practices,[120] should the risk associated with consumer loans evolve significantly and generate signs of destabilizing the financial system.[121] Proactive system-wide risk assessment by drawing fully on supervisory data is also recommended to detect signs of potential overheating early. Stress testing and scenario analysis can be useful tools to identify vulnerable banks and engage in supervisory dialogue to ensure their soundness.

12. Medium to long-term priorities for authorities include preparing for a potential rise in financial stability risks by developing appropriate policy tools and enhancing statistical infrastructure. To mitigate risks of household over-indebtedness, authorities may consider operationalizing tools such as a debt-service ratio limit, and applying sectoral loan limits to consumer loans, the latter of which is now used for real estate loans. If continued expansion in credit card loans is primarily driven by banks' excessive objective for profits, it may also be worth considering measures such as a lower interest rate and fee cap[122] or tiered pricing frameworks.[123] To accurately assess household debt levels and repayment capacity in a timely manner, developing comprehensive data on those two economic factors, capturing both formal and informal credit, would help in formulating a more targeted policy response.

13. Over the longer term, efforts should continue to structurally enhance compatibility between financial inclusion and stability, thereby supporting the sustainable growth trajectory in the Philippines. Consumer-targeted financial education on topics such as debt service benchmarks and the risks of revolving credit can promote more informed borrowing decisions. In parallel, advancing initiatives to improve credit information sharing and usage would both enhance credit access by consumers and strengthen overall risk management at banks.

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3. Growth Potential and Structural Challenges in the Philippines: Role of Manufacturing and Services[124]

Prepared by Andrew Tsang

The updated input-output (IO) analysis examines the Philippines' growth potential and structural challenges, emphasizing the dominance and resilience of high-value services such as IT-BPM and finance, alongside a persistently shallow and import-dependent manufacturing base. The findings underscore the need for a calibrated policy strategy that upgrades modern services, deepens manufacturing through "servicification" and infrastructure development, invests in human capital, and manages AI-related disruptions to sustain inclusive growth and long-term productivity gains.

Introduction

1. **Structural weaknesses in manufacturing and emerging technological disruptions could weigh on the Philippines' long-term growth potential.** The economy has shown remarkable resilience in recent years, sustaining solid growth despite a volatile global environment. The post-pandemic recovery has been driven largely by services—especially tourism, information technology and business process management (IT-BPM) and finance—but the country's shallow manufacturing base continues to constrain its ability to capture opportunities from global supply-chain reconfiguration. At the same time, rapid advances in artificial intelligence (AI) are transforming services, threatening niches in low-value business process outsourcing (BPO) niches and raising the imperative to move up the value chain. This Selected Issue reassesses the Philippines' growth potential and structural challenges using an updated input–output (IO) analysis and traces longer trends since 2000 to anchor policy recommendations.

2. **The current study applies an IO multiplier framework to examine structural dynamics and sectoral interlinkages in the Philippine economy.** Specifically, the analysis utilizes the Asian Development Bank's (ADB) Philippine IO tables for 2000 and 2007–2022 to compute standard multipliers—output, value-added, and import—as well as backward and forward linkage indicators derived from the Leontief inverse matrix. The computation procedure follows Ji (2023), and the estimated multipliers and linkage indicators are presented in Table A3.1.

Table A3.1. Multiplier and Linkage Indicators

	Indicators	Description
Multipliers	Simple output multiplier	Measures direct and indirect effects of one unit value of final demand from one industry on total output. The output multiplier for sector j is the sum of column j in the Leontief inverse matrix.
	Value-added multiplier	Measures total value-added generated in the economy (excluding intermediate inputs) due to a unit value change of final demand for one sector. It is calculated by the vector of value-added coefficient times the Leontief inverse matrix.
	Import multiplier	Measures the amount of imports required to meet one unit change in the final demand of each sector. It is calculated by the share of imports times the Leontief inverse matrix.
Intersectoral linkages	Backward linkage	Shows the demand amount from other industries, captured by the respective column coefficients of the Leontief inverse matrix. For easier comparison, the coefficients are divided by the mean across industries, so a number above 1 represents above-average backward linkage.
	Forward linkage	Shows how much an industry output is demanded by other industries, captured by respective row coefficients of the Leontief inverse matrix. For easier comparison, the coefficients are divided by the mean across industries, so a number above 1 represents above-average forward linkage.

Source: Ji (2023).

Updated Input–Output Results

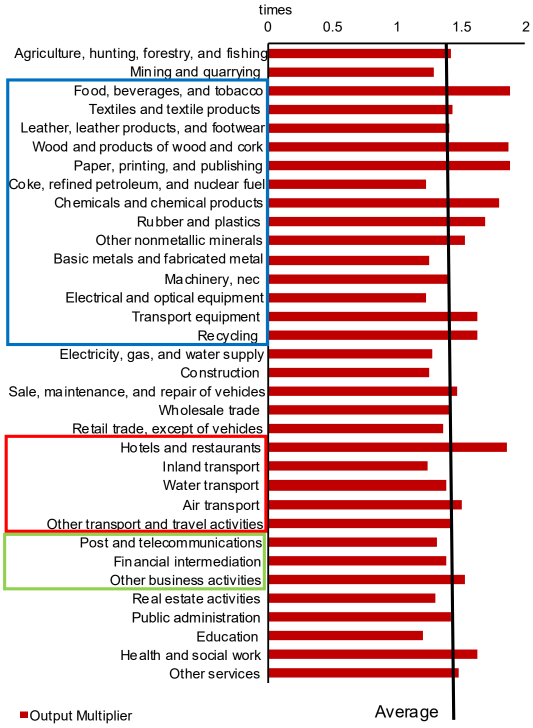
3. The updated IO analysis confirms that the higher value-added services sector remains the main growth driver after the COVID pandemic. The results are consistent with the findings of Ji (2023) on the pre-pandemic period.

- The IO analysis, based on the latest Philippine IO table in 2022, shows that tourism-related services (particularly hotels and restaurants), IT-BPM (other business activities) and some manufacturing industries (food processing and chemicals) generate strong output spillovers (Figure A3.1), suggesting they are growth drivers in the post-pandemic period. However, the output multipliers for major manufacturing segments, and electrical and optical equipment, were below average.

- Knowledge-intensive services, such as IT-BPM and finance, deliver higher domestic value-added (Figure A3.2) and lower import leakages (Figure A3.3), reinforcing their sustainable growth potential. In contrast, manufacturing and tourism exhibit lower value-added multipliers and higher import multipliers.

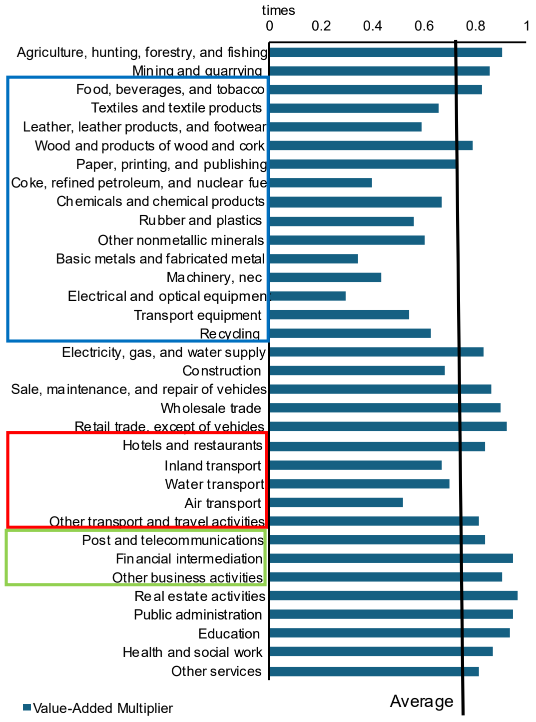
- Backward linkages are strongest in food processing, hotels and restaurants, and chemicals, while forward linkages are notable for chemicals, finance, IT-BPM, and food and beverages, aligning with their roles as economy-wide input suppliers (Figure A3.4).

Figure A3.1. Output Multiplier by Industry, 2022



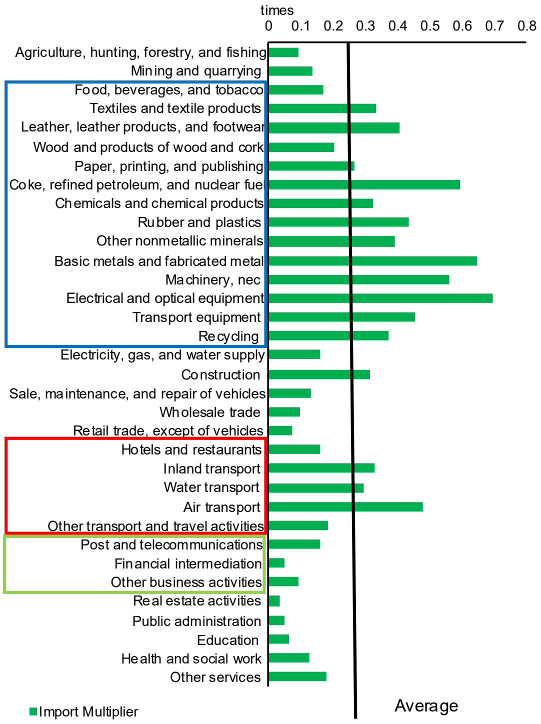
Source: ADB; AMRO staff estimates
Note: Manufacturing industries are highlighted in the blue frame, tourism-related industries in the red frame, and IT-BPM and finance are highlighted in the green frame.

Figure A3.2. Value-added Multiplier by Industry, 2022



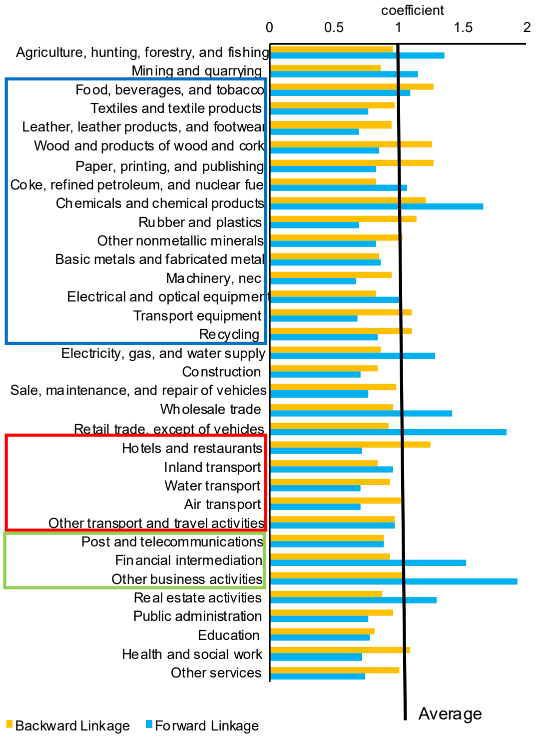
Source: ADB; AMRO staff estimates
Note: Manufacturing industries are highlighted in the blue frame, tourism-related industries in the red frame, and IT-BPM and finance are highlighted in the green frame.

Figure A3.3. Import Multiplier by Industry, 2022



Source: ADB; AMRO staff estimates
Note: Manufacturing industries are highlighted in the blue frame, tourism-related industries in the red frame, and IT-BPM and finance are highlighted in the green frame.

Figure A3.4. Forward and Backward Linkages by Industry, 2022



Source: ADB; AMRO staff estimates
Note: Manufacturing industries are highlighted in the blue frame, tourism-related industries in the red frame, and IT-BPM and finance are highlighted in the green frame. The coefficients are divided by the mean across industries, so a number above 1 represents above-average forward/backward linkage.

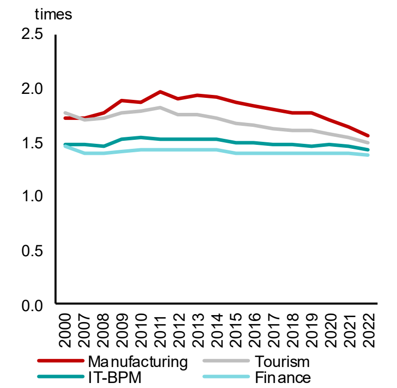
4. The long-term evolution of the Philippine input-output structure underscores both resilience in services and persistent structural weaknesses in manufacturing.

- Average output multipliers have remained broadly stable in IT-BPM, mainly BPO, and in finance since 2000. Meanwhile, manufacturing and tourism exhibit stronger output spillovers, but these have gradually weakened over the past two decades (Figure A3.5). The gradual decline in manufacturing's output multiplier may partly reflect a steady servicification of production, in which demand for manufacturing is increasingly transmitted through service inputs such as logistics, finance and BPO.

- In contrast, value-added multipliers have been consistently higher and stable in finance and IT-BPM, while being lower and gradually declining in manufacturing and tourism (Figure A3.6). The upward trend in value-added multipliers for modern services since 2010 reflects productivity gains from digitalization and rising human-capital intensity.

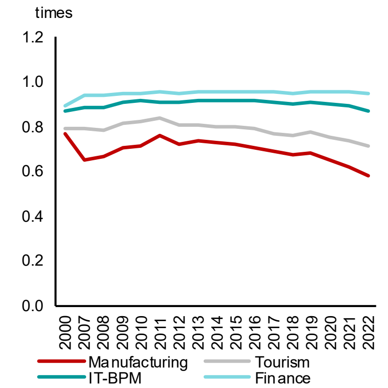
- Import multipliers are persistently high in manufacturing and tourism, having continuously increased since 2011 (Figure A3.7). These reflect sectors that are highly dependent on imported intermediates, particularly due to the country's shallow manufacturing base. By contrast, services sectors—including IT-BPM and finance—record progressively lower import multipliers, underscoring their role in improving the economy's self-sufficiency.

Figure A3.5. Output Multipliers of Selected Industries, 2000-2022



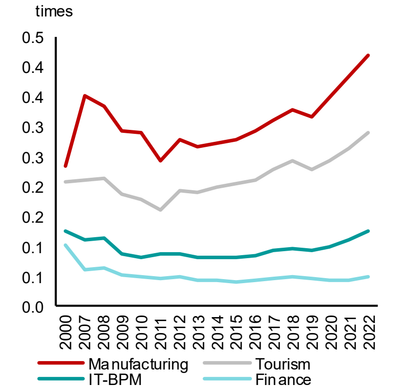
Source: ADB; AMRO staff estimates

Figure A3.6. Value-added Multipliers of Selected Industries, 2000-2022



Source: ADB; AMRO staff estimates

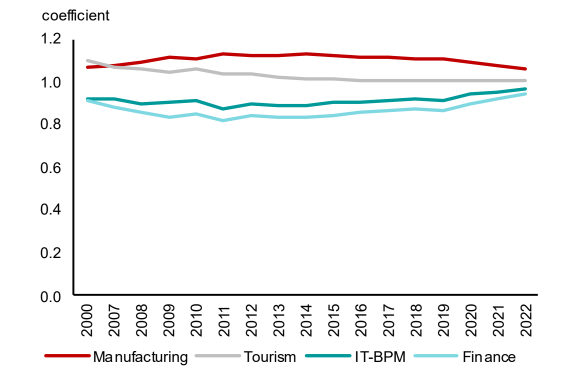
Figure A3.7. Import Multipliers of Selected Industries, 2000-2022



Source: ADB; AMRO staff estimates

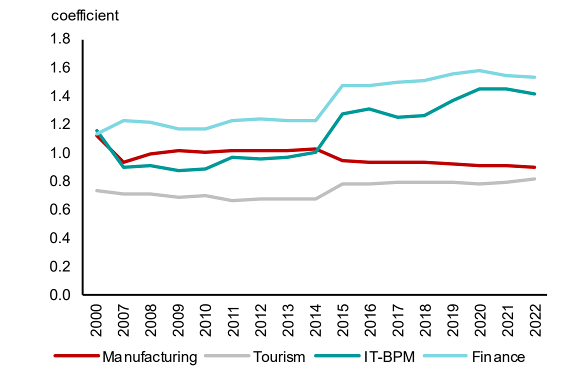
- Structural linkages have also evolved. Manufacturing and tourism maintain above-average backward linkage indices, exceeding 1, indicating the high extent to which these sectors draw inputs from others (Figure A3.8). Backward linkages have strengthened in finance and IT-BPM, partly reflecting increased domestic sourcing. The forward linkages—how the analyzed sectors supply inputs to others—are strongest in finance and IT-BPM, and have increased since 2015 (Figure A3.9). These trends confirm that services, especially finance and IT-BPM, have become key enabling inputs to both industrial and household activities.

Figure A3.8. Backward Linkages of Selected Industries, 2000-2022



Source: ADB; AMRO staff estimates
Note: The coefficients are divided by the mean across industries, so a number above 1 represents above-average forward or backward linkage.

Figure A3.9. Forward Linkages of Selected Industries, 2000-2022



Source: ADB; AMRO staff estimates
Note: The coefficients are divided by the mean across industries, so a number above 1 represents above-average forward or backward linkage.

Structural Insights

5. The Philippines' shallow manufacturing base remains an important structural constraint. While manufacturing's overall contribution to domestic income is modest, a few subsectors—particularly food processing and chemicals—retain strong output multipliers and solid backward linkages, indicating their significant potential to trigger domestic supply chain spillovers. Meanwhile, manufacturing's contribution to domestic value-added has remained weak for two decades—particularly in capital- and energy-intensive branches, such as rubber and plastics, basic metals, and machinery—continuously showing high import multipliers and weak local sourcing, limiting value-added generation. High logistics, electricity and compliance costs, as well as gaps in infrastructure readiness and policy coherence, continue to erode competitiveness and limit integration into global production networks. Moreover, the lack of a strong manufacturing sector, which can employ large numbers of workers, makes it more difficult to create stable wage jobs for vulnerable groups, thereby exacerbating income inequality.

6. Services have become the main driver of growth and employment in the Philippines. The sector accounts for roughly 60 percent of GDP and two-thirds of total expansion over the past decade. The IO analysis highlights IT-BPM, finance, education and public administration as key sources of value-added creation (high domestic income and low leakage), while tourism and information and communication technology (ICT) shape total output dynamics and employment through large economy-wide spillovers. This composition both explains the dominance of services in GDP growth and underscores the dual challenge ahead: preserving and upgrading modern services to achieve quality growth, while localizing tourism supply chains to raise value retention.

- The IT-BPM industry, as a global leader in voice-based and rule-based processes, risks rapid erosion of its status as the Philippines' comparative advantage as AI tools replace routine tasks (See Cucio and Hennig, 2025; Box A "*IT-BPM: Challenges and Opportunities from Rapid Growth in Artificial Intelligence*"). Nevertheless, the IO evidence regarding high value-added, low import content supports a concerted shift toward higher-value segments, namely knowledge-process outsourcing (KPO), global capability centers (GCCs) and digital trade services.

- Tourism remains an important driver of output and jobs, with strong backward linkages to transport, food products and chemicals. However, its value-added multipliers remain below the economy-wide average due to heavy import content. Strengthening local sourcing will be critical to raising tourism's contribution to GDP, particularly through upstream development in agriculture, food processing, energy and construction materials.

- Financial intermediation continues to stand out for its strong value-added creation and systemic forward linkages, providing critical inputs across sectors and amplifying productivity economy-wide. These results justify further deepening of financial intermediation and digital finance to diffuse productivity gains to firms and to crowd-in private capital for supply-chain and infrastructure upgrades. Thus, the sector's growing integration with digital platforms and fintech ecosystems also deepens its cross-sectoral influence, reinforcing the expansion of both services and manufacturing value chains.

7. The need for "servicification" is evidenced by strong and increasing linkages in the Philippines. As mentioned in the Philippine Development Plan (PDP) 2023-2028, servicification could deepen bidirectional links between the manufacturing and services sectors, retaining more domestic value-added. The IO linkage analysis supports the need for servicification: manufacturing draws heavily on transport, finance and business services, signalling strong backward linkages, while services, especially finance and trade, supply critical intermediate inputs, indicating vital forward linkages. The results are also confirmed by analysis using the OECD-WTO trade in value added (TiVA) data shown in Moreno (2024). The persistence of high import multipliers in core manufacturing underscores the incomplete nature of this transition. Strengthening domestic supply chains in food processing, chemicals, and tourism-linked industries, and leveraging modern services to raise productivity, remain critical for translating servicification into broad-based, inclusive industrial growth.

Policy Implications

8. The latest IO evidence underscores a need to refine the Philippines' growth strategy in light of the dual challenges of a shallow manufacturing base and rapid AI development. The strategy should prioritize upgrading high value-added sectors such as IT-BPM, while also building manufacturing depth and advancing servicification. At the same time, establishing a performance evaluation framework with streamlined targets will be critical to monitor sectoral outcomes and assess the effectiveness of public spending. Furthermore, mobilizing both public and private investment—including through the Maharlika Investment Fund—will be essential to expand infrastructure and develop green industries.

9. To implement the growth strategy, policy could be anchored in three pillars:

- **First, strengthen high-value services and manage AI disruption**. Policies should support IT-BPM's transition to KPO and GCC activities through R&D and innovation incentives. Strengthening digital infrastructure[125] would enhance the digitalization and competitiveness of IT-BPM and other knowledge-based services.

- **Second, rebuild manufacturing through servicification and infrastructure.** Developing industrial clusters, logistics, and reliable power grids, including renewables, will be critical. Improved road connectivity and logistics infrastructure, for example, would support tourism, manufacturing, and agriculture by facilitating the movement of goods and people.

- **Third, invest in human capital and institutional delivery.** Sustaining services-led growth and credible industrial upgrading requires a future-ready workforce. The case for allocating around 4 percent of GDP to education is strong if paired with STEM and digital curricula, industry-linked technical training, and agile reskilling programs. Such efforts would allow BPO and ICT to transition decisively into KPO and GCC activities, while enabling manufacturing to absorb the digital, engineering, and managerial capabilities embedded in services.

References

Cucio, M., and Hennig, T. 2025. "Artificial intelligence and the Philippine labor market: Mapping occupational exposure and complementarity." IMF Working Paper No. 25/43.

Ji, K. 2023 "Philippines' Services Sector Developments and Intersectoral Linkages." AMRO Annual Consultation Report on the Philippines – 2023.

Moreno, N. I. S. 2024. "The Role of Services in Global Value Chains: Assessing the Servicification of Philippine Manufacturing Industries." Philippine Institute for Development Studies (PIDS) Discussion Paper No. 2024-39.

End Notes

[1] Selected semiconductors and other products are exempt from US tariffs. In 2024, 31.2 percent of exports to the US were semiconductors.
[2] Infrastructure spending declined since July 2025 amid sluggish disbursements by the Department of Public Works and Highways (DPWH). Specifically, infrastructure spending contracted by 25 percent in July. Moreover, the DPWH had suspended bidding for two weeks to facilitate the government's investigation into defective or non-existent flood control projects in September. However, the public spending would recover in Q4. On November 6, President Marcos Jr. has ordered the release of PHP1.307 trillion in the last quarter of 2025 to respond to the needs of calamity victims across the Philippines.
[3] In the first ten months of 2025, the price of rice—which accounts for 8.9 percent of the overall CPI basket—dropped by 12.0 percent, reversing from a 16.4 percent increase in 2024.
[4] Philippine headline inflation has been mainly driven by supply factors in recent years, whereas core inflation was driven roughly equally by demand and supply factors, according to AMRO staff's analysis in Chapter 2, "Inflation in ASEAN+3: Changing Dynamics and Policy Implications" in ASEAN+3 Regional Economic Outlook 2025. For headline inflation, supply factors accounted for 64 percent of inflation in 2024, and dropped to -7 percent of inflation between January and August 2025, reflecting the easing in food prices. Over the same period, the contribution of demand factors increased from 18 percent in 2024 to 47 percent in first eight months of 2025. Due to ambiguous components, the combined contributions of demand and supply factors do not add up to 100 percent. See Tsang, A. and P. Wacharaprapapong (2023). "Drivers of Philippine Inflation", AMRO's 2023 Annual Consultation Report on the Philippines, for details on the methodology.
[5] These measures include streamlining import licensing and documentation requirements and improving the logistics, transport, and distribution of imported agricultural products, as outlined in Administrative Order No. 20, s.2024.
[6] The deficit in goods trade reflects the Philippines' trade structure, reflecting the economy's import-dependent production and consumption. Export performance is dominated by processed manufactures, which account for about 80 percent of total exports but rely heavily on imported raw materials and intermediate inputs, which comprised around 36 percent of imports. Meanwhile, capital goods related to infrastructure and industrial investment represent about 30 percent of imports, while consumer goods—including food and durables—make up roughly 20 percent, underscoring the structural nature of the external imbalance.
[7] The services exports surplus was driven by gains in information technology and business process management (IT-BPM) and manufacturing services, though partly offset by deficits in travel, transport, financial and insurance services.
[8] The decrease in net financial account inflows was primarily driven by residents' higher overseas portfolio investment, followed by an increase in loans to non-residents and a reduction in net foreign direct investment (FDI) equity inflows, particularly in the manufacturing, utilities, and construction sectors.
[9] According to the BSP, the new playbook marks a shift in focus from the previous day-to-day market participation, which proved to be ineffective and costly. The strategy places greater emphasis on minimizing impacts from prolonged FX depreciation and includes a formula that identifies thresholds of cumulative exchange rate depreciation, estimated to contribute to price pressures. Interventions will be initiated when the thresholds are triggered during periods of high volatility.
[10] The real policy rate is calculated as the nominal policy rate minus the year-on-year CPI inflation rate for the same month. The historical average real policy rate refers to the average of monthly real policy rates from January 2010 to October 2025.
[11] In March 2025, the same RRR reduction was applied to nonbank financial institutions with quasi-banking functions (NBQBs). Digital banks' RRR was lowered from 4 percent to 2.5 percent. Thrift banks' RRR was reduced from 1 percent to 0 percent, aligned with the RRR for rural and cooperative banks.
[12] Total bank lending refers to total loans, under the "Loans Outstanding for Production and Household Consumption" statistics.
[13] This monthly data on household loans is taken from "Loans Outstanding for Production and Household Consumption" and excludes mortgages. Mortgage loans are classified under real estate lending within corporate loans.
[14] While credit card loans have continued to expand rapidly, credit card loan performance has not shown clear signs of deterioration, with the NPL ratio remaining largely unchanged at 4.5 percent in Q2 2025, lower than the pre-pandemic level of mid-5 percent. To avoid interest payments, most transactors consistently pay their balance in full each month from 2019 to 2025. That said, forward-looking risk management is vital to prevent financial distress arising from an increase in revolvers, referring to consumers who make partial payments and incur interest charges, which could lead to rising delinquencies and dampen consumption growth.
[15] POGO firms have historically been among the largest tenants in Metro Manila's commercial real estate market, particularly within key business districts. However, their exit since July 2024 has contributed notably to rising vacancy levels. According to Colliers' Q2 2025 Metro Manila Office Report, surrenders from POGO firms accounted for over 45 percent of the total vacated office space in Metro Manila as of H1 2025.
[16] Authorities expect the full implementation of these reforms will be in 2026.
[17] Under Section 261(v) of the Omnibus Election Code (Batas Pambansa Blg. 881), the Philippines imposed a 45-day ban on the release, disbursement, or expenditure of public funds for public works projects ahead of the May 12, 2025 midterm elections (March 28–May 12). Projects that had been commenced or contracted prior to the start of the election period—as well as maintenance or emergency repairs—were permitted to continue. However, no new infrastructure projects, public works, or personnel hiring were allowed during the ban.
[18] The nominal GDP number (PHP28,209 billion) is based on AMRO's projection, combining the real GDP projection and GDP deflator projection. See Appendix 1. Selected Figures for Major Economic Indicators, and the discussion on outlook in Paragraph 4.
[19] The adjusted budgeted fiscal deficit in 2026 would be 5.6 percent of GDP, excluding privatization revenue of 0.3 percent of GDP. This is slightly higher than the budgeted fiscal deficit in 2025. That said, the authorities are confident that other non-tax revenues will exceed the budgeted amounts, which could still support fiscal consolidation.
[20] Under this adverse scenario, the assumptions for projections include those tariffs revert to April 2 rates for China, BRICS-aligned economies face an additional 10 percent tariff, and previously exempt goods, mainly semiconductors, are subject to a 25 percent tariff.

[21] The Philippines' long-term government bonds are affected by U.S. Treasury bonds through return, interest rate shock and volatility spillovers. See Tsang, A., M.S. Yiu and H.T. Nguyen (2021), "Spillover across Sovereign Bond Markets between the US and ASEAN4 Economies," *Journal of Asian Economics*, 76, Article 101343, and AMRO Working Paper: WP/20-04.
[22] See Tsang, A. and W. San, 2024. Scarring Effects of COVID-19 and Post-pandemic Philippine Economic Recovery, AMRO's 2024 Annual Consultation Report on the Philippines.
[23] See Nam, B., 2023. Infrastructure Investment in the Philippines: Challenges and Policy Considerations, AMRO's 2023 Annual Consultation Report on the Philippines.
[24] The assessment is based on the Global Competitiveness Index 2019, published by the World Economic Forum. According to the World Competitiveness Report 2024 published by the Institute of Management Development (IMD), the Philippines ranked below 55th in various infrastructure aspects among 67 economies.
[25] In the last decade (2015 - 2024), based on quarterly data, manufacturing accounted for 18.7 percent of GDP, contributed 16.1 percent of total growth over a decade, and provided 8.2 percent of employment.
[26] This box was prepared by Zhan (Bella) Guo, Associate Economist.
[27] Information Technology and Business Process Association of the Philippines (IBPAP). 2022. "Philippine IT-BPM Industry Roadmap 2028." *IBPAP Publication.*
[28] Personal remittances from Overseas Filipinos (OFs) reached USD 38.3 billion in 2024, 3.0 percent higher than the USD 37.2 billion recorded in 2023.
[29] Cucio, M., and Hennig, T. 2025. "Artificial intelligence and the Philippine labor market: Mapping occupational exposure and complementarity" IMF Working Paper No. 25/43.
[30] According to Everest Group's webinar, GICs—also known as Global Capability Centers (GCCs) or Global Business Services (GBSs)—have operated in the Philippines since the 1980s-1990s, with a major turning point toward higher growth between 2014 and 2016 following the establishment of the GIC Council. Around 200 GICs now operate in the country. The IBPAP president has emphasized the importance of GCCs in IT-BPM's expansion, noting that the global GCC market, valued at about USD 100 billion in 2024, is projected to reach USD155 billion by 2027. See Philippine News Agency (PNA) 2025, "GCCs seen to boost projected 5% growth of PH's IT-BPM sector in 2026".
[31] According to the Philippines Board of Investments, from 2020 to August 2025, approvals were granted to 26 projects classified as knowledge-based service providers under the IT-BPM industry, with total project costs amounting to PHP 1.5 billion, or about 5.4 percent of the industry's total approved investments.
[32] Over the past decade, public spending on education averaged 3.2 percent of GDP, with the highest allocation recorded in 2017 at 3.96 percent of GDP.
[33] OECD. 2023. "New Evidence on the Economic Effects of Services Trade Reform." *OECD Trade Policy Paper No. 271*
[34] Barriers to foreign investment and professional services in the Philippines remain. See OECD, 2024, Services Trade Restrictiveness Index.
[35] Based on AMRO staff estimates using the fiscal impulse, measured by changes in the structural primary balance, with the change in primary expenditure as a supplementary measure.
[36] Based on AMRO's fiscal space assessment framework, which is grounded in a comprehensive definition of fiscal space as "the room for a government to implement discretionary fiscal policy relative to the baseline, with available financing, without compromising debt sustainability." For further details, see Nam and Song (2025).
[37] The financing sustainability buffer refers to the maximum size of fiscal stimulus that would keep gross financing needs (GFN) within the threshold of 15 percent of GDP. Currently, the buffer stands at 4.7 percent of GDP, compared to around 10 percent before the pandemic.
[38] This is because 2023—the base year for calculating transfers—marked the first year of revenue recovery since the pandemic.
[39] A negative output gap would urge for a faster pace of rate cuts, whereas a positive output gap would justify a tighter stance.
[40] Total bank lending refers to total loans, under the "Loans Outstanding for Production and Household Consumption" statistics.
[41] Quarterly data from the "Consumer Loans" statistics, which includes mortgages, indicated that consumer loans accounted for 21.4 percent of total loans and grew by 21.2 percent yoy in Q2 2025.
[42] After showing gradual improvement from 2021 to 2023, nonfinancial corporates' debt repayment capacity in terms of their Debt Service Ratio (DSR) slightly worsened in 2024, in both the listed and unlisted non-MSME segments. DSRs also worsened in the broader sectors, such as agriculture, business services, and utilities and waste management".
[43] In this context, credit concentration risks of conglomerates should also continue to be monitored. Banks could find it difficult to comprehensively assess conglomerates' financial condition and risk profile, given the close link in funding and capital among conglomerates and their affiliates across multiple industries. As a result, banks may not be able to expect the typical diversification benefits that they would gain from lending to non-conglomerate firms, and credit costs also risk being amplified during an economic downturn. Authorities established a cross-sectoral Supervisory College for financial conglomerates in 2022 to foster inter-agency cooperation, facilitate information-sharing, align supervisory strategies, and address cross-sectoral risks.
[44] The share of available-for-sale instruments in portfolio investments increased from 29 percent in September 2019 to 44 percent in September 2025, while total portfolio investments in the banking sector climbed 113 percent during the same period.
[45] In 2021, the BSP expanded access for trust entities managing non-resident funds to invest in BSP securities, contributing to the rise in financial assets held by NBTAs.
[46] The authorities regularly assess potential vulnerabilities collectively and coordinate policies through the FSCC and the Financial Sector Forum. The recent FSCC meeting identified risks associated with asset valuations, for example. Since 2022, they have also leveraged the financial conglomerate Supervisory College to strengthen supervision, which should help ensure stability in the financial sector.
[47] It would be necessary to keep an eye on the risks to borrowers stemming from the rapid growth of digital financial inclusion, as evidenced partly by the surge in digital bank lending, which also suggests the importance of enhancing financial literacy. Regarding challenges for Philippine digital banks in the context of rapid expansion of lending and credit risk management, see Endo, S. and Choo, C. Y, 2025, "Evolving Digital Banks in the Philippines: Unlocking Financial Inclusion While Managing Credit Risks in the Startup Phase", Box 3.4, Chapter 3, AMRO ASEAN+3 Financial Stability Report 2025.
[48] This subsection's discussion heavily draws on Choo and Tsang (forthcoming), "Quantitative Assessment of Monetary Policy Transmission Mechanism in the Philippines", AMRO Analytical Note.
[49] Españo, V. T., Ma. A. C. C. Santillan, and N. D. De Guzman. 2024. "Measuring Uncertainty in Inflation Expectations." BSP Discussion Paper 2024-04.

[50] The dynamic time warping (DTW) analysis in Choo and Tsang (forthcoming) reveals a strong correlation between policy rates and macroeconomic variables, as indicated by the low DTW distances. The impact of policy rate changes on macro variables is immediate for inflation gaps with no observed lag, while domestic household consumption and investment respond after a three-quarter delay, and FX rates after one quarter.
[51] The DTW analysis reveals that the interbank call loan (IBCL) rate adjusts to policy changes with minimal lag—typically less than two months. Meanwhile, the effectiveness of transmission to the IBCL rate was average at 116 percent of policy rate movements among seven tightening and easing cycles since July 2007, the strongest among different market interest rates.
[52] The IRC reform launched in June 2016 has better aligned short-term market rates with the BSP's policy rate by establishing a transparent policy band and auction-based liquidity management, thereby strengthening price signaling and anchoring market expectations.
[53] The monetary policy transmission is delayed for longer maturity of ten year, taking above two months. The degree of pass-through also tends to diminish as bond maturity lengthens. Despite the long-end bond yield could be affected by other factors, its weak responsiveness to the policy rate changes still reflects a lack of deep liquidity in longer-end capital markets that is required to enhance the mechanism of price signaling to investors when the BSP increases the policy rate.
[54] According to the DTW analysis, the monetary policy transmission to deposit rates varies from two to four months. The sensitivity of the average savings deposit rate (32 percent) was generally lower than that of the average lending rate (57 percent) across all cycles. During the tightening cycle in 2022–2023, the responsiveness of the average private corporate interest rate to a policy rate change was around two thirds of the change, while that of SMEs was lower at 32 percent, mainly due to the lack of bargaining power and alternative funding options. Meanwhile, the sensitivity for consumer loans was even lower at 24 percent, underpinned by weaker competition in this segment relative to business loans.
[55] The BSP also implemented an enhanced peso interest rate swap, and has expanded the repo market for government securities to strengthen monetary transmission to short-term interest rates.
[56] A deeper financial market could increase competition to bank credit through a broader pool of alternative financing sources and allow more responsiveness in interest rates, especially lending rate. See Singh, S., A. Razi, N. Endut, and H. Ramlee. 2008. "Impact of Financial Market Developments on the Monetary Transmission Mechanism." Bank Negara Malaysia, Kuala Lumpur.
[57] The Securities and Exchange Commission (SEC) and other agencies have been working to reduce market friction and promote broader participation in both the equity and corporate bond markets Furthermore, minimum investment rules and asset class criteria such as credit quality, could be eased to allow better diversification and return-seeking by pension funds, facilitating more investment in domestic assets. On minimum investment rules, funds under the state-run Social Security System (SSS) are required to invest 15 percent of assets in government securities. The Government Service Insurance System (GSIS) must invest 40 percent in direct housing loans, and is then allowed to invest the remainder in government securities. According to the Social Security Act of 2018, these pension funds' investments in corporate bonds must finance domestic projects. The issuer is required to hold an investment grade rating, have no history of default and maintain an interest coverage ratio of 1.25 during three out of the five years preceding the investment. To invest in equities and foreign assets, the issuer should have a proven track record of profitability over the last three years and payment of dividends at least once during the same period.
[58] The government approval in August 2025, allowing financial institutions access to Personal Equity and Retirement Account (PERA) data, is a move toward the right direction in channeling more funds into domestic capital markets while tailoring to investor risk appetite. In this regard, it makes sense for authorities to enhance the PERA take-up rate.
PERA is a voluntary retirement savings program that supplements retirement benefits from the SSS, the GSIS, and employers.
[59] Currently, unit investment trust funds (UITFs) and mutual funds are classified differently in the Philippines, as opposed to other regional jurisdictions, and are regulated by different authorities. The imbalanced treatment of these investment vehicles has led to differentiated development, with UITFs outpacing mutual funds.
[60] Britt-Fermo and Lomibao. 2023. "Investigating the response of banks to monetary policy in the Philippines: Is the bank lending channel at work?" BSP Discussion Paper No. 2023-08.
[61] The coverage of individuals in the Credit Information Corporation (CIC) database increased from 23 million in 2020 to 65 million in June 2025, while that of companies slowly rose from 90,000 to 160,000 during the same period. In August 2025, the BSP launched a new credit risk database, the Credit Risk Database Philippines Web-based Scoring System (CRDPh System), to provide probabilities of default and credit scores in a particular group of attributes. This improves the credit risk assessment of MSMEs, reduces financial institutions' overdependence on collateral, and ultimately supports broader financial access by MSMEs.
[62] The PDP aims to drive inclusive, innovation-led, and sustainable economic growth through a combination of infrastructure investment, industrial transformation, and human capital development, including the acceleration of the "Build Better More" infrastructure program, deepening integration into regional and global value chains, and the promotion of digitalization. See National Economic and Development Authority (NEDA), 2023, Philippine Development Plan 2023-2028.
[63] The PDP 2023–2028 adopts a holistic approach and seeks balanced development across all sectors with different priorities: i) modernizing agriculture and agribusiness; ii) revitalizing four selected industrial clusters, such as Industrial, Manufacturing, and Transport (IMT), Technology, Media, and Telecommunications (TMT), Health and Life Sciences (HLS), and Modern Basic Needs (MBN); and iii) upgrading services, notably tourism, IT-BPM, and creative industries.
[64] See Moreno, N. I. S., 2024, The Role of Services in Global Value Chains: Assessing the Servicification of Philippine Manufacturing Industries, Philippine Institute for Development Studies (PIDS) Discussion Paper No. 2024-39.
[65] The 'systematic performance evaluation framework' refers to the government's formal system for measuring economic impact of the national economic plan related to the growth strategy, assessing whether the measures or plans could deliver their intended results. Different from the existing Performance-Informed Budgeting (PIB), the suggested framework aims to directly link to the growth strategy, instead of the evaluation for single projects, for assessing complete feedback effects.
[66] Contact center services accounted for 83 percent revenue and 89 percent employment of IT-BPM sector in 2024.
[67] Such as knowledge process outsourcing (KPO), information technology outsourcing (ITO), global capability centers (GCCs), and global in-house centers (GICs). The trend is driven by accelerated digitalization and the shift from cost to talent arbitrage. Furthermore, GCCs and GICs are serving as centralized hubs that provide integrated support for complex and strategic functions across multinational operations.
[68] There are remaining barriers to foreign investment and professional services in the Philippines, see OECD, 2024, Services Trade Restrictiveness Index. Meanwhile, empirical evidence suggests that regulatory reform and liberalization in services boost

investment and sectoral upgrading, see OECD, 2023, New Evidence on the Economic Effects of Services Trade Reform, OECD Trade Policy Paper No. 271.

[69] As mentioned above, in the last decade (2015 - 2024), manufacturing accounted for 18.7 percent of GDP, contributed 16.1 percent of total growth over a decade, and provided 8.2 percent of employment. Moreover, the shares of manufacturing in both GDP and employment have been declining over the decades, see Pelkmans-Balaoing, E. A. O. and Mendoza, A., 2024, Structural change and industrial upgrading in the Philippines: Stylized facts and routes towards sophisticated economic diversification, UPSE Discussion Paper, No. 2024-05.

[70] For example, the National Roadmap on Digital Technology and Digital Skills and National Innovation Agenda and Strategy Document (NIASD) 2023-2034. Moreover, the legislative process of proposed Konektadong Punoy Bill and Satellite-Based Technologies for Internet Connectivity Act, which aim to enhance digital infrastructure investment and connectivity, should be expedited.

[71] For example, road connectivity and logistics infrastructure could support developments in tourism, manufacturing, and agriculture by improving the transport of goods and people, while the digital infrastructure could enhance the digitalization and competitiveness of IT-BPM and other knowledge-based services.

[72] Based on various cross-country studies, the fiscal multiplier for infrastructure spending typically ranges from 1.3 to 1.5 in the medium term.

[73] This entails expanding and modernizing the Technical Education and Skills Development Authority's (TESDA) vocational and technical training programs, placing greater emphasis on digital literacy, technology adoption, and soft skills that align with industry requirements.

[74] The IMD World Competitiveness Ranking 2025 placed the Philippines at 51st place globally. While it improves from the 52nd place in 2024, the country is still lower than its best ranking of 48th place in 2022. The report has identified key areas to improve for the Philippines, namely business efficiency, investment environment for international businesses, and scientific infrastructure.

[75] See Nam, B., 2023. Infrastructure Investment in the Philippines: Challenges and Policy Considerations, AMRO's 2023 Annual Consultation Report on the Philippines, Asian Development Bank. 2017, Meeting Asia's infrastructure needs, and World Economic Forum, 2019, The Global Competitiveness Report 2019.

[76] According to the World Bank's Business Ready Index 2024, the Philippines ranked 36th (out of 50 economies) in operational efficiency, 24th in quality of public services, and 16th in regulatory framework. See World Bank, 2024, Business Ready 2024. Moreover, the authorities have implemented infrastructure policy reforms, such as the passage of Accelerated and Reformed Right-of-Way (ARROW) Act, and issuance of Executive Orders on the Green Lanes for Strategic Investment and Streamlining the Permitting Process for Infrastructure Flagship Projects.

[77] There is the presence of barriers to foreign investment across a number of sectors, including professional services, construction services and distribution services, as well as limitations for foreigners to acquire and use real estate, localization requirements for foreign services, and the application of labor market tests to certain categories of services suppliers. See OECD, 2024, Services Trade Restrictiveness Index: The Philippines.

[78] According to the PDP 2023 – 2028, the Philippines' cost of doing business is higher than other ASEAN countries, with high electricity costs, logistics costs, and unnecessary regulatory costs.

[79] See ADB, 2019, Philippines: Encouraging Investment through Capital Market Reforms Program – Completion Report and World Bank, 2025, Philippines Economic Update, June 2025: Small Business, Big Impact - Catalyzing Philippine Growth. Moreover, the Philippines' financial system is largely bank-based, which kept many households and MSMEs from formal credit access. Furthermore, coupled with inadequate credit scoring and a lack of alternative financing avenues, a large segment of Filipinos and businesses was deprived the chance to invest and contribute meaningfully to the economy. According to ADB SME Monitor, Philippines' 2023 MSME outstanding loans to total loans ratio, of 4.1%, was much lower than Indonesia (20.6%), Malaysia (16.7%) and Thailand (20.1%), highlighting the need to expand inclusive finance to small businesses.

[80] See AMRO Annual Consultation Report on Philippines – 2023 (Annex 4 "Infrastructure Investment in the Philippines: Challenges and Policy Considerations") for more analysis on the PPP.

[81] See Yang (forthcoming), "Local Fiscal Multipliers of Infrastructure Spending in the Philippines: Evidence from Regional Data", AMRO Analytical Note.

[82] The Economy and Development (ED) Council-Investment Coordination Committee (ICC) has approved to adopt the Policy for Aggregating Multiple Flood Control and Management Projects within a Single River Basin to curtail corruption efforts of circumventing the ICC's total project cost threshold. According to the authorities, this policy aims to maximize the impact of flood management investments, by ensuring their alignment with long-term river basin masterplans and Integrated Water Resources Management (IWRM) principles, rather than the projects being driven by short-term political priorities. This will therefore enable the government to conduct a comprehensive review of the flood management projects, when evaluated collectively as an aggregate program within a river basin, that considers the aggregate program's technical, environmental, social, and economic viability.

[83] For example, the 2022 amendments to the Retail Trade Liberalization Act, the Public Service Act, and the Foreign Investments Act. Specifically, amendments to the Retail Trade Liberalization Act have relaxed requirements for foreign retail enterprises; amendments to the Public Service Act have eased foreign ownership restrictions in key public service sectors; and amendments to the Foreign Investments Act have allowed international investors to set up and fully own domestic enterprises (including MSMEs) in the Philippines.

[84] Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE) aims to generate jobs and spur economic growth. It builds on the earlier CREATE Act by enhancing the tax regime and incentive framework to attract both domestic and international investments. The enhancements for eligible enterprises include reducing and streamlining corporate income tax, clarifying VAT incentives for export-related activities, and deductions for energy expenses, among others.

[85] For example, the Public-Private Partnership (PPP) Code of the Philippines, the Public Service Act, the amended Trade Liberalization Act, the CREATE MORE Act, and Executive Orders on the Green Lanes for Strategic Investment and Streamlining the Permitting Process for Infrastructure Flagship Projects, which were passed and signed last few years. In addition, E-Governance Act (RA 12254), was signed into law on 5 September 2025 which digitalizes government services; and Accelerated and Reformed Right of-Way (ARROW) Act (RA 12289), was signed into law on 12 September 2025 which helps expedite processes and completion of infrastructure projects in the country.

[86] Corporate bond issuances remain low at just 10 percent of GDP compared with 53 percent for government bonds. This data refer to outstanding bonds issued by corporates and the national government, including both local currency and foreign currency-denominated bonds. The data source is ADB Bond Online database, and is dated March 2025.
[87] In July 2025, the SEC's Office for the Advancement of Strategic Investments in SMEs (OASIS) launched several initiatives to help local corporations gain financing, including via the PSE SME Board and crowdfunding platforms. OASIS also partnered with the Department of Trade and Industry (DTI), Small Business Corp. (SBCorp), National Development Co. (NDC), Manila Angel Investors Network, Eastern Securities-RoundOne and DragonFi Securities Inc. to help MSMEs develop their business, including raising funds from capital markets. Measures to improve access to finance include setting up a helpdesk to address concerns regarding SEC processes, digital services and capital-raising options. The SEC also seeks to lower filing fees for capital raising and allow the use of receivables as collateral so businesses can get funding from a lender.
[88] The BSP and IFC signed a memorandum of understanding on March 17, 2025, to collaborate on promoting movable asset financing (MAF) for MSMEs and the agricultural sector. MAF is an innovative lending approach that allows borrowers to secure loans using movable assets that include inventories, receivables and equipment.
[89] The BSP lifted a moratorium on new digital banking licenses on January 1, 2025, allowing four more licenses on top of the existing six to be issued to applicants that have demonstrated capacity to meet the minimum criteria and offer value propositions, particularly those that can reach out to untapped or underserved market segments. On September 25, 2025, the BSP announced that it would no longer receive new applications for digital bank licenses starting December 1, 2025. This closure of the application window came after the Monetary Board's approval of a moratorium on digital bank licensing on September 18, 2025. The moratorium would stay in effect until further notice. See BSP Press Release:
https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=7679&MType=MediaReleases
[90] This box was prepared by Jinho Choi, Deputy Group Head and Principal Economist.
[91] PSA, "2022 to 2024 Consolidated Accounts and Income and Outlay Accounts of the Philippines," June 2025.
[92] See Beckmann, J., Belke, A. and D. Gros (2022). "Savings–Investment and the Current Account More Measurement than Identity," *Journal of International Money and Finance*, Vol. 121(C).
[93] To address such issues, some researchers and the IMF adjust the official gross savings data using the savings–investment identity and historical current account balance for analytical purposes. That said, this box relies on official data, which provide a sectoral breakdown of gross savings, while acknowledging the presence of measurement limitations.
[94] The Philippines' liquidity asset ratio stood at 28.8 percent as of 2024, remaining above ASEAN peers such as Thailand (22.2 percent), Indonesia (18.1 percent), and Vietnam (7.9 percent).
[95] Chami, R., Barajas, A., Cosimano, T., Fullenkamp, C., Gapen, M. and P. Montiel (2008). "Macroeconomic Consequences of Remittances," *IMF Occasional Paper*, No. 259.
[96] See Gochoco-Bautista, M. S. (2025). "A Macroeconomic Perspective on Economic Resilience and Inclusive Growth in the Philippines," *Philippine Review of Economics*, Vol. 62(1): 127-160; and Ma, C. and S.-J. Wei (2020). "International Equity and Debt Flows: Composition, Crisis, and Controls," *NBER Working Papers* 27129.
[97] Prepared by Chunyu Yang, Economist.
[98] Public DSA for the Philippines covers national government debt.
[99] According to the latest available data in 2023. Meanwhile, for the concessional loans, the final maturity limit is 35 years, while average maturity limit is 20 years.
[100] Although the share of short-term debt increased in 2023, this may reflect the authorities' strategy to shorten the duration amid a high-interest rate environment. However, the size of short-term debt in 2023 remained smaller than in 2020 and 2021.
[101] Prepared by Andrew Tsang, Senior Economist.
[102] This Selected Issue was prepared by Andrew Tsang, Senior Economist.
[103] The central bank's decisions are data-dependent and complementary to various forward-looking models, survey-based expectations and the Monetary Board's policy judgments.
[104] The ECM extends the basic Taylor rule (Taylor 1993) by embedding a co-integrating "target rule" for the policy rate and modeling short-run adjustments of the policy rate. Some studies used co-integration and the ECM to estimate the Taylor rule, for example, Christensen and Nielsen (2003), Belke and Cui (2010) and Anderl (2022). Some other literature, while not explicitly being framed as co-integration or error correction in all parts, engages with long-run versus short-run behaviors in Taylor rule estimation, for example, Ricci and Shi (2016), Filardo et. al. (2019), Kwizera (2024) and Hofmann et. al. (2025).
[105] The coefficient is larger than 1, and close to 1.5 in the conventional Taylor rule as mentioned in Austria and Lapid (2018).
[106] The coefficient is close to zero, and below 0.5 in the conventional Taylor rule.
[107] The BSP may have less concerns about the possibility of massive capital outflows triggered by widening rate differentials, due to a relatively low participation of foreign investors. Nevertheless, the negative sign is consistent with expectations.
[108] The significant positive first-lag coefficient suggests short-term persistence in policy rate changes, while the negative coefficients of subsequent lags indicate partial reversals over the next few quarters.
[109] This Selected Issue was prepared by Shunsuke Endo, Senior Economist; and Kuchsa Dy, Associate.
[110] Consumer loan data is taken from quarterly "Consumer Loans" statistics and consists of motor vehicle loans, credit card loans, salary loans and residential real estate loans. The data on loans to production sectors, used in Figure A2.1. is derived from "Total Outstanding Loans to Residents (net of BSP RRP)" in the "Loans Outstanding for Production and Household Consumption" statistics less consumer loans.
[111] See Asian Banking and Finance 2025.
[112] See BSP 2025.
[113] That said, forward-looking risk management is vital to prevent financial distress arising from an increase in revolvers, referring to consumers who make partial payments and incur interest charges, which could lead to rising delinquency and dampen consumption growth.
[114] Transactors refer to consumers consistently paying their balances in full to avoid interest payment, while revolvers refer to those who make partial payments and incur interest charges.
[115] Salary loans are typically repaid through payroll deductions but are classified as unsecured, as they are not collateralized by assets unlike motor vehicle or residential real estate loans.
[116] Net profits of rural and cooperative banks increased by 39.3 percent in December 2024 year on year.
[117] Universal and commercial banks and thrift banks increased net profits by 9.7 and 9.9 percent, respectively, in December 2024 year on year. As for the credit cost breakdown in the Philippine banking system, see Figure A2.8.

[118] The study also highlights limitations in the existing empirical literature: the scarcity of research that adequately addresses endogeneity and reverse causality, resulting in most studies showing correlations without identifying causal links; and the widespread reliance on ex-post indicators, which limits the usefulness of such analyses in identifying vulnerabilities before they materialize.
[119] These regulations include the Truth in Lending Act (Philippines 1963), the General Banking Law of 2000 (Philippines 2000), the Manual of Regulations for Banks (BSP 2022a), BSP Regulations on Financial Consumer Protection; Guidelines and Procedures Governing the Consumer Assistance and Management System of BSP-Supervised Financial Institutions; and Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions (BSP 2019), and Regulations on Financial Consumer Protection to implement Republic Act No. 11765 (BSP 2022b).
[120] The practices of national authorities show that responsible lending does not have a strict or uniform definition, but is rather used as a normative concept. The introduction of responsible lending frameworks in some jurisdictions, in addition to existing consumer protection regimes, reflects the presence of potential gaps between those regimes and the challenges of financial stability that these countries face. Accordingly, there is a policy imperative to systematically set out the requirements of responsibility and ethics in lending, which appears to underpin the adoption of such frameworks.
[121] It could be useful to draw on practices from other countries to maintain sustainable household indebtedness. In 2025, the Bank of Thailand (BOT) issued regulations on responsible lending to address the country's longstanding structural challenge of household indebtedness (BOT 2025 Xu 2025). The regulations organize the lending product life cycle, spanning credit product development, advertisement, sales processes, and extending through legal proceedings and debt transfers, into eight key areas, thereby systemically prescribing the credit management responsibilities that financial service providers should shoulder throughout the consumer's debt journey. Meanwhile, in 2023, Bank Negara Malaysia (BNM) introduced specific requirements on emerging financial products within the personal financing segment to promote prudent and responsible financing practices, explicitly bringing BNPL arrangements within the regulatory perimeter (BNM 2023). These precedents could serve as useful guidance for the Philippines in striking an appropriate balance between financial inclusion and stability in consumer lending.
[122] In the Philippines, the maximum interest rate or finance charge on the unpaid credit card balance of a cardholder is 3 percent per month or 36 percent per year. Similarly, the monthly add-on rate that credit card issuers can charge on installment loans is maintained at a maximum of 1 percent per month. The maximum processing fee on the use of credit card cash advances stays at PHP200 per transaction (BSP 2023).
[123] In Malaysia's case for instance, in 2007, BNM announced introducing a tiered pricing structure to promote good financial discipline among credit card users. For the benefit of users who have a good track record of settling the balances due each month promptly for 12 consecutive months, the finance charge is reduced from the maximum of 18percent per annum to not more than 15 percent per annum. The ceiling rate of 18 percent per annum is still applicable to other cardholders (BNM 2007).
[124] This Selected Issue was prepared by Andrew Tsang, Senior Economist.
[125] Recent legislation efforts such as the National Roadmap on Digital Technology and Digital Skills and National Innovation Agenda and Strategy Document (NIASD) 2023-2034 are welcomed. Moreover, the legislative process should be expedited for the proposed Konektadong Punoy Bill and Satellite-Based Technologies for Internet Connectivity Act, which enhance digital infrastructure investment and connectivity.

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