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Philippines Monthly Economic Developments

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Economic activity decelerated sharply in Q1 2026 amid a broad-based slowdown in domestic demand and a mounting energy price shock. High-frequency indicators signal subdued conditions moving into Q2. A sustained downturn in key production sectors could weaken labor income and further raise food prices just as higher energy prices are fueling faster inflation. The energy price shock has driven inflation above the target range since March and continues to dampen investor sentiment. The central bank tightened monetary policy to anchor inflation expectations and contain increasing price pressures. Meanwhile on fiscal, the government has allowed fuel price increases to pass through while providing targeted support for vulnerable groups.

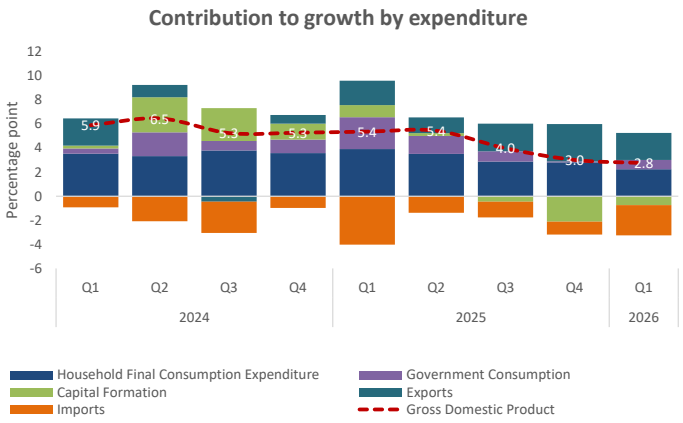
GDP growth slowed to 2.8 percent year-on-year (yoy) in Q1 2026 and the slowdown was broad-based. On the production side, services growth moderated (4.5 percent) while industry and agriculture contracted (0.1 percent and 0.2 percent, respectively). Construction activity fell amid a steep decline in public infrastructure spending. Agriculture also contracted reflecting weak crop output including rice. Construction and agriculture employ many lower-skilled and informal workers, with strong links to household incomes at the lower end of the distribution. A sustained downturn in these sectors would weaken labor income growth and raise food prices amid a mounting energy price shock.

Expenditure data show a domestic demand slowdown (Figure 1). Household consumption growth eased to 3.0 percent amid subdued consumer confidence and rising inflation. Gross capital formation fell by 3.3 percent amid weak construction and durable equipment spending. Government consumption grew 4.8 percent, but its contribution fell sharply from last year's high base. Exports grew 7.8 percent, partly offset by import growth of 6.1 percent.

High-frequency indicators point to subdued economic activity going into Q2. The S&P Global Purchasing Managers' Index (PMI) fell to 48.3 in April (Figure 2), reflecting a loss in momentum in production and new orders in the ASEAN region. Both quarter-and year-ahead indices of consumer and business sentiment, as measured by Bangko Sentral ng Pilipinas (BSP) surveys, trended downward in Q1.

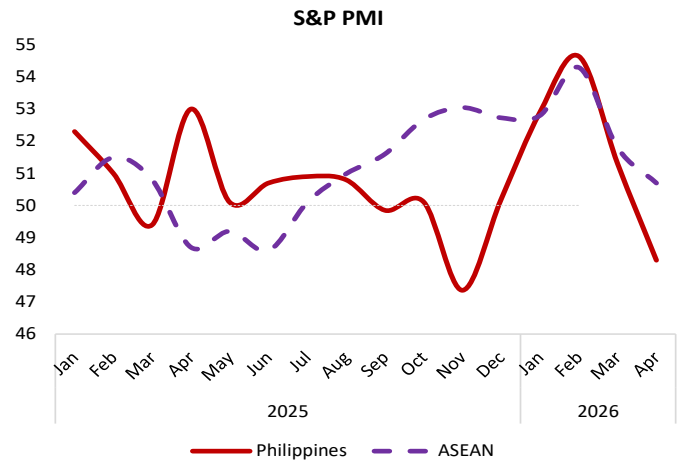
Despite weaker economic activity, inflation surged to 7.2 percent in April as the oil price shock raised fuel, transport, and electricity costs (Figure 3). Food inflation also increased, reflecting weaker domestic supply and higher input costs. This will weigh on household spending given the large share of food in the consumer basket especially among poorer households. Pass-through to selected services, including restaurants, accommodation, and rents, pushed core inflation up to 3.9 percent yoy in April.

Figure 1. The growth contribution of all demand categories except for exports.



Source: Philippine Statistics Authority (PSA).

Figure 2. Philippine manufacturing PMI fell sharply in line with the regional trend.



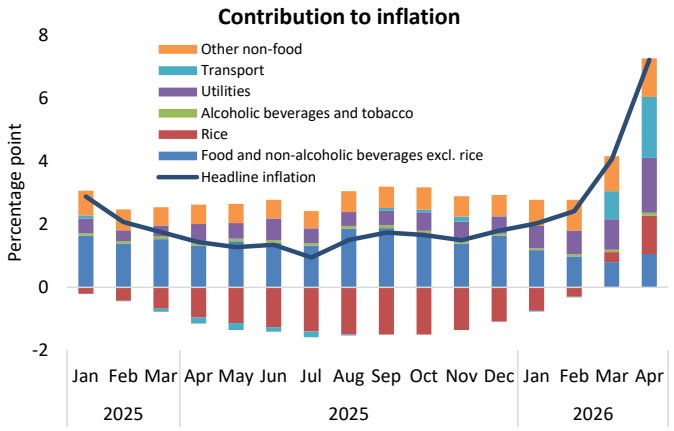
Source: S&P Global.

The BSP tightened monetary policy amid a deteriorating inflation outlook. On April 23, the BSP raised its key policy rate by 25 basis points to 4.5 percent. The shift to monetary tightening is intended to anchor inflation expectations and contain second-round effects from the energy price shock. The BSP projects inflation to stay above the 4.0-percent ceiling until 2027 as higher global energy and fertilizer prices feed into domestic fuel and food prices. Rising inflation expectations heighten the risk of entrenching inflationary pressures. With inflation seen averaging 6.3 percent in 2026, real rates are expected to turn negative if the BSP does not raise interest rates further. Markets now price roughly over 200 bps of BSP tightening over one year, with the 1Y implied rate moving to 6.4 percent, compared with about 4.25 percent in late February. At the same time, given the dominance of supply-side inflation pressures, additional monetary tightening would need to be applied carefully given already subdued activity.

Financial market sentiment remains weak since the start of the war in the Middle East. Government bond yields have risen since the start of the conflict and trended upward again after the release of higher-than-expected April inflation data. The Philippine peso appreciated from PHP60.74/USD as of April 1 to USD59.96/USD as of April 17 but remained weaker than before the conflict. This tracks similar movements in the currencies of other net oil importers in the region (dashed lines in Figure 4). Oil prices remain elevated and investors' flight to safety into dollar-denominated assets continued. Foreign investors were net sellers of local shares with the Philippine Stock Exchange index falling by 0.4 percent over the previous month. Despite foreign capital outflows, gross international reserves provide an adequate external liquidity buffer equivalent to 7.1 months' worth of imports of goods and services and primary income, and about 3.9 times the country's short-term external debt.

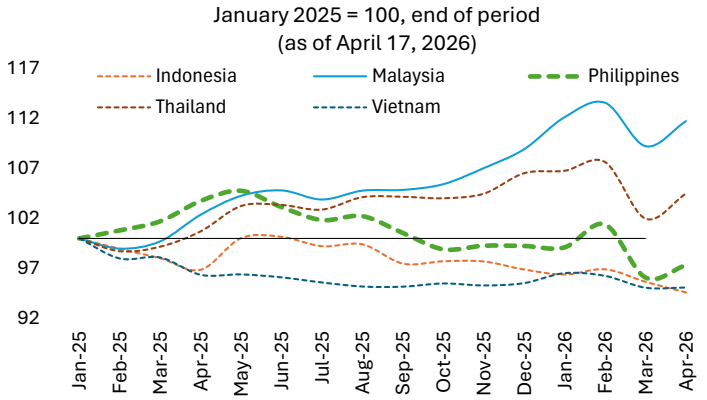
The fiscal response aims to preserve energy availability, allow fuel prices to increase, and cushion vulnerable households and affected sectors. The government procured additional fuel stocks, diversified import sources, and mandated public-sector energy conservation. It also expanded targeted support through cash transfers, fuel subsidies, transport fare discounts, and service contracting. Excise taxes were suspended only for kerosene and liquefied petroleum gas, while both products remain generally subject to value-added tax, limiting the expected revenue impact. The fiscal package for the crisis response is estimated at 0.2 percent of GDP and will be financed through existing agency budgets and reallocations, including cuts to current spending and deferral of non-critical capital outlays.

Figure 3. The oil price shock has led to a surge in transport prices and utilities.



Source: PSA.

Figure 4. Regional currencies have started to recover from their lows in early April but remain weaker than in end-February.



Source: Haver Analytics.

DEVELOPMENTS TO WATCH

- **The persistence of second-round inflationary effects and the BSP's tightening cycle.** With inflation projected to breach the target until 2027, how will rising input and transport costs affect inflation expectations? How much weight will the BSP give to slowing economic activity in its upcoming policy decisions?
- **The evolution of the scale and mix of government crisis response measures.** The government has thus far limited its crisis response package within the existing fiscal envelope. How will response measures evolve as the crisis continues?

SELECTED FINANCIAL AND ECONOMIC INDICATORS (in percent, unless otherwise indicated)								
	2024	2025	Q4 2025	Q1 2026	Jan-26	Feb-26	Mar-26	Apr-26
Real GDP growth, at constant market prices	5.7	4.4	3.0	2.8				
Private consumption	4.9	4.5	3.8	2.2				
Government consumption	7.7	8.4	0.7	0.8				
Capital formation	7.7	-1.7	-9.4	-0.7				
Exports, goods and services	3.2	8.2	13.3	2.3				
Imports, goods and services	4.3	5.0	3.2	2.5				
Industry Performance								
Value of Production Index (growth rate)	0.3	1.1	1.3		2.6	4.6		
Volume of Production Index (growth rate)	1.0	0.7	1.3		1.3	3.2		
Average Capacity Utilization	75.3	77.0	77.8		77.8	77.5		
S&P Philippines Purchasing Managers' Index	52.1	50.5	49.2	52.9	52.9	54.6	51.3	48.3
Monetary and Banking sector								
Headline Consumer Price Index (growth rate)	3.2	1.7	1.7	2.8	2.0	2.4	4.1	7.2
Core Consumer Price Index (growth rate)	3.0	2.4	2.4	3.0	2.8	2.9	3.2	3.9
Domestic liquidity (M3) (growth rate)	6.2	6.6	7.7		8.6	10.3		
Credit growth (universal and commercial banks loans to residents	10.5	11.9	11.7		9.9	9.8		
Business loans	8.7	10.0	8.7		8.1	8.5		
Consumer loans	23.6	23.3	22.3		21.3	20.9		
Fiscal sector (Quarter and Annual)								
Fiscal balance (% of GDP) 1/	-5.7	-5.6	-5.8					
Total Revenue (% of GDP) 1/	16.7	15.9	13.7					
Tax Revenue (% of GDP) 1/	14.4	14.6	12.9					
Total Expenditure (% of GDP) 1/	22.4	21.5	19.5					
National government debt (% of GDP, eop)	60.7	63.2	63.2					
Stock market								
PSEi (month-end value, eop)	6,528.8	6,052.9	6,052.9	5,948.9	6,329.0	6,611.2	5,948.9	
External accounts								
Current account balance (% of GDP)	-4.0	-3.4	-1.8					
Exports of goods (growth rate) 2/	0.6	15.6	21.9		8.7	8.0		
Imports of goods (growth rate) 2/	1.4	5.5	3.9		-1.0	12.6		
Net foreign direct investment (in million US$)	9,398.3	7,791.3	2,076.9					
Balance of payment (% of GDP)	0.3	-1.2	-0.3					
International reserves (in million US$)	106,276	107,311	110,779	111,130	112,615	113,264	107,512	
Import cover (months)	7.6	7.2	7.3	7.3	7.4	7.5	7.1	
Nominal exchange rate (average, Php/US$1)	57.3	57.5	58.7	58.9	59.2	58.3	59.4	
Labor Market								
Unemployment rate	3.8	4.2	4.6		5.8	5.1	5.0	
Underemployment rate	11.9	11.9	10.1		13.2	11.8	12.3	
Sentiments								
Consumer confidence index (end of period)	-11.1	-22.2	-22.2	-15.8				
Business confidence index (end of period)	44.5	29.7	29.7	24.3	0.9	8.2	24.3	

Source: Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP), and Bureau of the Treasury (BTr).

1/ Preliminary estimates for 2025 using BTr and PSA data.

2/ Using the IMTS data released by the PSA.

Prepared by the **Economic Policy Philippines Team.**
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