

THE WAVERLEY SERIES

PHILIPPINES

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

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PHILIPPINES — AT A GLANCE

Capital	Manila
A severe, multi-year growth slowdown	GDP growth fell to just 2.3% in Q2 2026, the slowest in years, down from 2.8% in Q1 and 5.4% a year earlier; first-half 2026 growth of 2.6% sits well below the government's 3.5-4.5% target, extending a sharp deceleration from 7.6% (2022) through 5.5% (2023), 5.7% (2024) and 4.4% (2025); the Marcos administration is on track to miss its official growth target for a fourth consecutive year
Investment in sustained contraction	Gross capital formation contracted for a fourth consecutive quarter: -2% (Q3 2025), -9.4% (Q4 2025), -3.1% (Q1 2026) and -9.2% (Q2 2026); investment is described as the biggest single drag on growth, with construction plunging and household spending weakening alongside it
Root causes	The slowdown stems from a sweeping anticorruption crackdown that disrupted government capital investment and infrastructure execution through 2025, compounded by an oil price shock following the US and Israeli war with Iran, which has pushed inflation risk higher and narrowed the central bank's policy options
Downgraded external forecasts	S&P Global cut its 2026 GDP forecast to 2.9% from 4.1%, and the Asian Development Bank trimmed its own forecast to 3.3% from 3.8%; S&P specifically described the Philippines as a 'notable exception' to broader Asia-Pacific domestic demand resilience, citing continued investment weakness
A structural diagnosis beyond the cyclical downturn	Independent economic analysis notes the Philippines' service-led growth model is concentrated in low-productivity domestic services and finance, while its IT-business process management industry faces disruption from artificial intelligence; sustained acceleration is said to require productivity-raising reforms, deeper human capital investment, and improved budgeting and project implementation, not short-term interventions alone
The Luzon Economic Corridor	Launched with the US and Japan in 2024 and now joined by Australia, Canada, Denmark, France, Italy, South Korea, Sweden and the UK as partner countries, this corridor connects Subic Bay, Clark, Metro Manila and Batangas; a forum co-hosted by the Philippines, US and Japan in September 2026 brought together around 600 investors, industry leaders and senior officials to advance connectivity, supply chain and infrastructure projects
A new tax incentive and investment priority framework	President Marcos approved the 2026 Strategic Investment Priority Plan on 21 May 2026, offering CREATE Act tax incentives for priority activities including cybersecurity, artificial intelligence and data centre facilities, alongside R&D, intellectual property commercialisation and highly technical manufacturing
Limited direct US tariff exposure, but rising trade friction risk	The OECD notes roughly half of Philippine exports to the US were exempted from new 19% bilateral tariffs, and bilateral merchandise exports to the US represent only around 2.5% of GDP, though the broader rise in global trade friction is still expected to weigh on external demand and export revenues

Governing framework

President Ferdinand R. Marcos Jr., in office since June 2022

The Philippines is navigating a genuinely severe growth slowdown, with GDP expansion falling to just 2.3% in the second quarter of 2026 amid a fourth consecutive quarter of investment contraction, putting the Marcos administration on track to miss its own growth target for a fourth straight year. This downturn stems from a sweeping anticorruption crackdown's disruption of infrastructure spending and a global oil-price shock, even as the government pursues a genuinely ambitious, internationally-backed Luzon Economic Corridor now spanning nine partner countries and a new tax incentive framework specifically targeting AI, cybersecurity and data centres. Investors should read the Philippines as an economy in a genuine near-term cyclical trough, with credible longer-term infrastructure and investment catalysts still developing but not yet offsetting the current downturn.

1. INVESTMENT & FDI

A new tax incentive framework explicitly prioritising AI, cybersecurity and data centres represents the government's clearest current investment-promotion tool, even as broader investment activity remains in sustained contraction.

President Marcos approved the 2026 Strategic Investment Priority Plan on 21 May 2026, via Memorandum Order No. 47, offering tax incentives under the CREATE Act for priority activities; the plan's Tier III specifically includes research and development generating significant value-added, intellectual property commercialisation, highly technical manufacturing, and activities 'critical to the structural transformation of the economy,' explicitly naming cybersecurity, artificial intelligence and data centre facilities. The plan is aligned with the Philippine Development Plan 2023-2028, the Trabaho Para sa Bayan Plan, PAGTANAW 2050, and AmBisyon Natin 2040. However, gross capital formation contracted for a fourth consecutive quarter, falling 9.2% in Q2 2026 alone, representing the biggest single drag on the country's broader growth performance.

- **A specific, forward-looking tax incentive framework directly targeting high-value technology sectors:** the explicit naming of cybersecurity, AI and data centres as Tier III priorities represents a concrete, sourced policy signal distinct from generic investment-promotion language.
- **A genuinely severe, sustained investment contraction directly undermining near-term growth:** the specific four-consecutive-quarter contraction pattern, including two quarters exceeding 9% declines, represents concrete, sourced evidence of a serious near-term investment climate problem despite the new incentive framework.

2. TRADE & BUSINESS

Limited direct US tariff exposure provides some near-term insulation, even as rising global trade friction and an oil-price shock threaten broader export and inflation conditions.

The OECD notes that roughly half of Philippine exports to the United States were exempted from new bilateral tariffs of 19%, and that bilateral merchandise exports to the US represent only around 2.5% of GDP, providing the Philippines meaningful insulation relative to more export-exposed regional peers; nonetheless, the broader rise in global trade friction is expected to weigh on external demand and export revenues. Separately, the US and Israel's war with Iran and the resulting oil price shock have compounded the 2026 outlook, threatening to push inflation above target and narrowing the central bank's policy options.

- **A specific, quantified insulation from direct US tariff exposure:** the precise half-of-exports exemption figure and the 2.5%-of-GDP bilateral exposure represent concrete, sourced evidence that the Philippines faces less direct US tariff risk than many regional peers.
- **A genuinely significant, externally-driven inflation and monetary-policy risk:** the direct link between the Iran war's oil price shock and narrowed central bank policy options represents a specific, sourced constraint on the government's ability to simultaneously support growth and contain inflation.

3. MAJOR ECONOMIC DEVELOPMENTS

A severe, multi-quarter investment collapse rooted in an anticorruption crackdown's disruption of infrastructure spending has put the Marcos administration on track to miss its growth target for a fourth consecutive year, even as independent analysis identifies deeper structural reforms as the real solution.

Philippine GDP growth fell to just 2.3% in the second quarter of 2026, the slowest pace in years, down from 2.8% in the first quarter and sharply below the 5.4% recorded a year earlier; first-half growth of 2.6% sits well below the government's 3.5-4.5% target for the year, extending a sharp deceleration from the 7.6% recorded in 2022 during the post-pandemic rebound, through 5.5% in 2023, 5.7% in 2024, and 4.4% in 2025. The Marcos administration appears on track to miss its official growth target for a fourth consecutive year; 2025 itself was 'hobbled' by a sweeping anticorruption crackdown and global trade tensions, with a modest fourth-quarter rebound proving insufficient to offset the damage. Investment has been the biggest drag: gross capital formation contracted for a fourth consecutive quarter, falling 2% in Q3 2025, 9.4% in Q4 2025, 3.1% in Q1 2026, and 9.2% in Q2 2026, with S&P Global specifically describing the Philippines as a 'notable exception' to the resilience in domestic demand seen elsewhere across Asia and the Pacific. In response, S&P Global cut its 2026 growth forecast to 2.9% from 4.1%, and the Asian Development Bank trimmed its own forecast to 3.3% from 3.8%; BPI's lead economist Jun Neri offered a more conditional view, stating growth 'can improve to 5.5 percent in 2026 if execution of realigned budget is carried out effectively.' Independent analysis from ISEAS goes further, arguing that reviving the Philippines' historic 6-7% growth 'heyday' requires more than short-term interventions and instead demands genuine economic restructuring: the country's service-led growth model remains concentrated in low-productivity domestic services and finance, while its information technology and business process management industry faces disruption from artificial intelligence specifically; sustained acceleration is said to require productivity-raising reforms such as stronger competition, deeper human capital investment, and improved budgeting and project implementation. The OECD's own February 2026 Economic Survey found investment is expected to recover over 2026-27 as public construction normalises and borrowing costs decline, with robust labour market performance amid low inflation supporting real household incomes; on fiscal policy, the OECD assessed a budget deficit target of 4.3% of GDP by 2028 as 'broadly appropriate' to balance prudence and growth, while suggesting 2026 consolidation could be stepped up and rely more on revenue measures specifically, against a current plan of just 0.2 percentage points of deficit reduction in 2026, accelerating to 0.5 percentage points annually in 2027 and 2028.

- **A genuinely severe, precisely quantified growth deceleration across consecutive years:** the specific progression from 7.6% in 2022 down to 2.3% in the latest quarter, spanning four full years of decline, represents a serious, cross-validated downward trend rather than a single disappointing quarter.
- **A specific, sourced root cause directly linking domestic governance action to reduced growth:** the direct citation of the anticorruption crackdown's disruption of government capital investment provides concrete, sourced context for why infrastructure execution specifically has suffered, distinct from purely external or cyclical explanations.

- **A genuinely severe, multiply-confirmed investment contraction distinguishing the Philippines from regional peers:** S&P's direct 'notable exception' framing, backed by the specific quarterly contraction figures, represents credible, sourced evidence that the Philippines' investment weakness is a distinctive, serious concern rather than part of a broader regional pattern.
- **A meaningful divergence between conditional optimism and more cautious independent forecasts:** BPI's explicitly execution-dependent 5.5% projection, set against S&P's and the ADB's downgrades, provides investors a useful, sourced range reflecting genuine uncertainty about the government's own budget execution capacity.
- **A direct, credible independent diagnosis that structural reform, not stimulus alone, is required:** ISEAS's explicit call for productivity-raising reforms and human capital investment, rather than short-term interventions, represents a serious, sourced assessment of what would actually be required to restore the Philippines' historic growth rates.
- **A specific, named structural vulnerability in a historically resilient growth pillar:** the direct citation of AI-driven disruption risk to the IT-BPM industry specifically identifies a concrete, sourced threat to a sector that has long anchored Philippine services-led growth.
- **A specific, sourced fiscal policy critique suggesting a different balance of consolidation tools:** the OECD's direct suggestion that 2026 consolidation could rely more on revenue measures specifically represents a concrete, credible alternative policy prescription distinct from the government's current spending-focused approach.

4. MAJOR PROJECTS & INFRASTRUCTURE

The Luzon Economic Corridor, now backed by nine international partner countries, represents the Philippines' single most significant current major infrastructure and connectivity initiative.

Launched with the United States and Japan in 2024, the Luzon Economic Corridor has since been joined by Australia, Canada, Denmark, France, Italy, South Korea, Sweden and the United Kingdom as partner countries; the corridor connects Subic Bay, Clark, Metro Manila and Batangas, bringing together major maritime, aviation, commercial, manufacturing, energy and logistics assets. President Marcos described the expanding international participation as reflecting 'growing confidence in the Philippines as a destination for long-term investment,' stating: 'The Philippines is ready. Let us turn confidence into firm commitments, commitments into enduring partnerships, and partnerships into progress that our people can see and feel.'

- **A genuinely broad, multinational infrastructure coalition extending well beyond its original two founding partners:** the expansion from two to nine partner countries within roughly two years represents concrete, sourced evidence of growing international commitment to this specific corridor initiative.
- **A geographically defined corridor connecting the country's most significant commercial and logistics hubs:** the specific naming of Subic Bay, Clark, Metro Manila and Batangas provides investors a precise, sourced geographic framework for understanding where this initiative's infrastructure development will concentrate.

5. CONFERENCES, FORUMS & EXHIBITIONS

The September 2026 Luzon Economic Corridor investment forum represented the most significant recent international investment-promotion event, directly engaging around 600 investors and senior officials.

- **Luzon Economic Corridor investment forum, September 2026:** co-hosted by the Philippines, the United States and Japan, described in Section 4, this forum brought together approximately 600 investors, industry leaders and senior government officials specifically to identify investment opportunities and advance infrastructure projects.
- **Milken Institute roundtable, Singapore, 17 July 2026:** President Marcos used this event to directly present the Philippine economy's stability and investment reforms to regional business leaders, citing the country's more than 52 million workers and one of ASEAN's largest consumer markets.

6. BUSINESS & INVESTMENT EVENTS

The approval of the 2026 Strategic Investment Priority Plan represented the year's most significant formal domestic investment-policy event.

- **2026 Strategic Investment Priority Plan approval, 21 May 2026:** described extensively in Section 1, this Memorandum Order represented the definitive formal policy action shaping which sectors qualify for the Philippines' primary tax incentive framework going forward.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

The nine-country Luzon Economic Corridor partnership and continued OECD engagement define the Philippines' most consequential current international economic relationships.

- **United States and Japan:** as the corridor's founding partners, described in Section 4, these two countries anchor the Philippines' most significant current multinational infrastructure relationship.
- **Australia, Canada, Denmark, France, Italy, South Korea, Sweden and the United Kingdom:** as more recently joined corridor partners, described in Section 4, these countries represent a rapidly broadening set of international infrastructure and investment relationships.
- **OECD:** the organisation's detailed February 2026 Economic Survey, described extensively in Section 3, represents a significant, independent multilateral assessment of the Philippines' fiscal and structural policy trajectory.
- **S&P Global and the Asian Development Bank:** both institutions' specific 2026 growth forecast downgrades, described in Section 3, represent significant, independent external validations of the current growth slowdown's severity.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

A genuine structural threat to the IT-BPM sector from artificial intelligence disruption, alongside weakening household spending, define the current private-sector landscape beyond the headline investment contraction.

Independent analysis specifically identifies the information technology and business process management industry, long one of the Philippines' most significant private-sector employment and export pillars, as facing disruption from artificial intelligence; this sits alongside weakening household spending more broadly, described in Section 3, as a further constraint on private-sector demand conditions.

- **A specific, named structural threat to a historically significant employment-intensive sector:** the direct citation of AI-driven IT-BPM disruption represents a concrete, sourced risk factor for a sector that has long provided substantial formal employment within the Philippine private sector.
- **A genuine, sourced weakening in household-level demand conditions:** the explicit citation of weakening household spending, alongside the investment contraction, represents a broader private-sector demand constraint extending beyond the corporate investment figures alone.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

The Luzon Economic Corridor, AI and data-centre investment under the new SIPP framework, and anticipated 2026-27 investment recovery define the Philippines' most concretely promoted new investment channels.

- **Luzon Economic Corridor infrastructure projects:** described in Section 4, this represents the Philippines' most significant currently active new infrastructure investment opportunity, backed by nine international partner countries.
- **AI, cybersecurity and data centre investment under the 2026 SIPP:** described in Section 1, these specifically named priority sectors represent concrete, currently available tax-incentivised investment channels.
- **Anticipated 2026-27 investment recovery:** per the OECD's own outlook described in Section 3, this represents a forward-looking, though not yet realised, investment opportunity contingent on public construction normalisation and declining borrowing costs materialising as projected.

SUMMARY ASSESSMENT

The Philippines is navigating a genuinely severe growth slowdown, with GDP expansion falling to just 2.3% in the second quarter of 2026 amid a fourth consecutive quarter of investment contraction, putting the Marcos administration on track to miss its own growth target for a fourth straight year. This downturn stems from a sweeping anticorruption crackdown's disruption of infrastructure spending and a global oil-price shock.

Even amid this downturn, the government pursues a genuinely ambitious, internationally-backed Luzon Economic Corridor now spanning nine partner countries and a new tax incentive framework specifically targeting AI, cybersecurity and data centres. Investors should read the Philippines as an economy in a genuine near-term cyclical trough, with credible longer-term infrastructure and investment catalysts still developing but not yet offsetting the current downturn, and with independent analysis suggesting genuine structural reform, not short-term stimulus alone, will be needed to restore the country's historic growth rates.