NRI

Nomura Research Institute

2025 Outlook Report

In the Philippine Context

January 2025

Dream up the future.

Contents

The Philippine Macroeconomy

by Joshua Co

NRI Manila forecasts the Philippine economy to grow at a rate of 5.9% in 2025 following this year's growth of 5.8% that has been dampened by lower production attributable to several weather disruptions. While in the long run, the country is expected expand at a rate of 6.2-6.3% thanks to consistently strong domestic demand and an expanding young labor force transitioning to higher productivity industries.

1. Looking back: A review of the Philippine economy in 2024

The Philippine economy is expected to see its growth settle at 5.8%, which falls below the 6-7% target set by the government for the year. This growth figure is mainly due to continuous weather disruptions affecting agricultural production and construction activity.

Table 1. Summary of 2024 Review

	2024				
	Q1	Q2	Q3	Q4 (e)	Annual
Private Consumption	4.6%	4.7%	5.1%	6.6%	5.3%
Government Consumption	1.7%	11.9%	5.0%	3.9%	5.9%
Capital Formation	0.5%	11.6%	13.1%	5.9%	8.0%
Exports	8.4%	4.2%	-1.0%	6.0%	4.2%
Imports	2.2%	5.3%	6.4%	7.8%	5.4%
GDP	**5.8%**	**6.4%**	**5.2%**	**5.8%**	**5.8%**

Source: Philippine Statistics Authority, NRI Analysis

2. Private Consumption

The last quarter of 2024 will demonstrate higher household consumption expenditure growth at 6.6% as compared to the previous quarters.

Said growth will be driven by holiday spending, largely on transportation, recreation, hotel and restaurant. This growth in Q4, however, is not enough to make the 2024 annual growth rate of 5.3% surpass that of 2023 which is at 5.6%. This can be partly attributed to the BSP retaining interest rates at 6.5%, the highest level in over 17 years, for the most part of 2024, initiating cuts only last August and October. With the high interest rates, discretionary spending exhibited lower growth rates compared to essential spending as households experience budget constraints. In future periods, however, the interest rate cuts are expected to stimulate consumption and spending.

Table 2. Household Final Consumption Expenditure Y-o-Y Growth

	2024				
	Q1	Q2	Q3	Q4 (e)	Annual
Essential	**5.5%**	**6.9%**	**5.8%**	**7.2%**	**6.4%**
Food and Beverage	0.4%	0.6%	3.2%	5.0%	2.4%
Housing and Utilities	7.4%	6.%	4.0%	5.9%	5.8%
Health	7.1%	9.4%	10.8%	7.8%	8.9%
Transport	7.6%	11.9%	6.8%	11.6%	9.3%
Communica-tion	4.7%	6.6%	4.4%	5.6%	5.4%
Discretionary	**4.7%**	**5.3%**	**4.6%**	**6.7%**	**5.7%**
Clothing and Footwear	1.4%	-5.5%	5.1%	4.1%	2.0%
Household Durables	2.7%	2.4%	2.9%	2.8%	2.7%
Recreation	9.4%	16.6%	4.7%	11.9%	10.5%
Hotel and Restaurant	11.9%	11.1%	9.8%	10.7%	10.9%
Total	**4.6%**	**4.7%**	**5.1%**	**6.6%**	**5.3%**

Source: Philippine Statistics Authority, NRI Analysis

3. Government Spending

The government's operating expenses are expected to grow to successfully implement programs such as conditional cash transfer, social pension, cash assistance, and other similar projects that require significant operational budget.

In 2025, the country is expected to see a 26.5% increase in its financial expenses to address its increased borrowings.

Table 3. Government Budget, as per Government Appropriations Act — Broken down by Type

	2024		Proppposed 2025	
	PHP Billions	% Growth	PHP Billions	% Growth
Personnel Expenses	1,483	0.40%	1,757	18.40%
MOOE	2,275	12.10%	2,420	6.42%
Operating Expenses	**3,758**	**7.20%**	**4,177**	**11.10%**
Debt Service	671	15.10%	848	26.50%
Capital Outlay	1,339	13.80%	1,327	-0.90%
Total	**5,768**	**9.50%**	**6,352**	**10.10%**

Source: Department of Budget and Management

On a per sector basis, providing social and economic services covering sectors such as education and transportation continue to be the country's main priorities. For economic services, the government seeks to continue its plans to strengthen the domestic transportation network through the Network Development Program and Rail Transport Program while bolstering its Flood Management Program. The social services sector, which is expected to receive the highest allocation, will continue to focus on improving the quality of and access to education, health, and social security services.

Table 4. Government Budget, as per Government Appropriations Act — Broken down by Sector

	2024		Proposed 2025	
	PHP Billions	% Growth	PHP Billions	% Growth
Economic Services	**1,775**	**9.30%**	**1,852**	**4.40%**
Agriculture	235	27.70%	226	-3.90%
Environment	27	8.00%	30	9.60%
Trade & Industry	13	-33.30%	14	11.60%
Tourism	7	22.70%	6	-1.70%
Power	17	13.10%	18	1.00%
Water	131	12.00%	257	96.30%
Communication & Transport	964	6.30%	861	-10.70%
Subsidy to LGUs	331	6.40%	393	18.70%
Social Services	**2,116**	**5.60%**	**2,121**	**0.20%**
Education	984	8.30%	1,067	8.50%
Health	322	-1.40%	322	-0.20%
Social Security	449	4.20%	299	-33.40%
Housing	6	24.50%	11	73.40%
Subsidy to LGUs	350	6.40%	416	18.90%
Defense	**278**	**35.60%**	**419**	**50.80%**
General Public Services	**899**	**9.20%**	**1,083**	**20.50%**
Administration	233	30.20%	234	0.50%
Public Order	362	6.80%	498	37.50%
Subsidy to LGUs	265	6.40%	315	18.70%

Source: Department of Budget and Management
Note: Figures based on initial draft of GAA as budget had not been finalized and approved as of writing.

4. Capital Formation

We expect to close the year with an 8.0% growth in capital formation. During the past quarters, the Philippine economy in 2024 has been underpinned by robust infrastructure spending, particularly in Q2 and Q3 where we have observed double-digit growth in construction and overall capital formation compared to same period last year (see Figure 5). While expected business expansions and rate cuts stoke positive business sentiments among construction firms[3], the double-digit growth was not sustained in Q4 likely due to severe weather conditions.

Table 5. Capital Formation Y-o-Y Growth

	2024				
	Q1	Q2	Q3	Q4 (e)	Annual
Fixed Capital	2.10%	9.70%	7.50%	6.60%	6.70%
Construction	6.90%	16.20%	8.90%	7.00%	10.20%
Equipment	-5.50%	-4.50%	8.10%	7.50%	1.10%
Biological Assets	-	-2.20%	-2.10%	-0.10%	-1.10%
Intellectual Property	2.70%	3.70%	1.70%	7.60%	4.10%
Total Capital Formation	**0.50%**	**11.60%**	**13.10%**	**6.40%**	**8.00%**

Source: Philippine Statistics Authority, NRI Analysis

Table 6. Growth and 5-Year Average GDP Share Contribution of Selected Industries

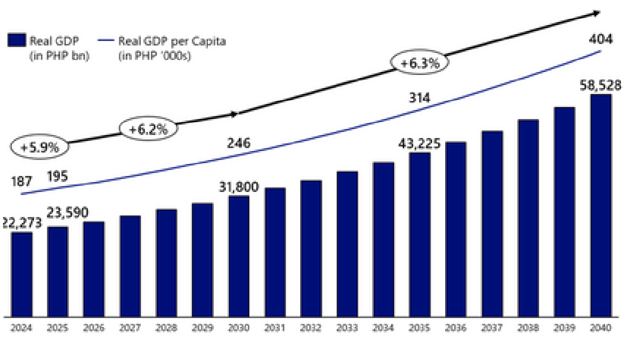
	2024	2025f	5-Year Average GDP Share Contribution
Agriculture	**-0.80%**	**2.40%**	**9.10%**
Industry	**5.40%**	**5.20%**	**29.40%**
Manufacturing	3.80%	4.50%	18.30%
Services	**6.90%**	**6.70%**	**61.60%**
Wholesale and Retail Trade	5.80%	5.90%	18.60%
Financial Services	9.00%	8.70%	10.10%

Source: Philippine Statistics Authority, NRI Analysis

5. Moving Forward: An Outlook on the Philippine Economy

Brighter prospects lie ahead for the country's economy. NRI Manila expects stronger growth at 5.9% in 2025 thanks to continued efforts to keep prices stable by limiting inflation within the 2-4% target band and the central bank encouraging lending by lowering the reserve requirements of banks and interest rates.

Figure 1. Forecasted Real GDP and Real GDP per Capita Growth



Source: Philippine Statistics Authority, NRI Analysis

Over the long run, economic expansion is expected to continue at rates ranging between 6.2-6.3% that is expected to be sustained by the country's robust domestic consumption and supported by the industry and services sectors. The team also expects real GDP per capita to reach almost PHP 250,000 by 2030 and surpass the PHP 400,000 mark by 2040. The team has highlighted select industries below that have displayed potential to propel future growth.

1. Manufacturing: Despite the result of the recent US elections, the team of incoming President Trump is expected to uphold the commitments made under the CHIPS and Science Act, which sought to provide grants to expand assembly, testing, and packaging (ATP) facilities, develop more skilled workers, and improve existing regulations. However, political and economic experts are wary of how the incoming president's tariff program might impact the industry moving forward. [4]

2. Wholesale and Retail Trade: The industry that is continuously fueled by strong domestic consumption will be further augmented by the continued adoption of online channels. As both retailers and consumers embrace selling and purchasing online, the expansion of digital payment options is expected to further spur e-commerce. In 2025, the BSP will lift the moratorium on the grant of new digital banking licenses.[5] Two large global digital payment platforms have also expressed interest in expanding in the Philippines.[6]

3. Financial Services: After having benefited from the delayed and controlled policy rate cuts by the central bank, continued expansion can be expected from the Philippine financial industry entering the new year. Although slightly tapered due to potential for more rate cuts, steady growth is expected to be fueled by rise in both consumer lending and loan disbursements to construction and transportation projects. [7]

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ESG in the Philippines: What to Expect in 2025

by Jonas Marie Dumdum

2025 will see important changes in the Environment, Social, and Governance (ESG)/Sustainability landscape in the Philippines. A more common theme of integrating the financial and non-financial aspects of businesses continues to shape up in not just mainstream operations, but also across the value chain. This will be felt not just in large and publicly-listed companies, but also in micro, small, and medium enterprises (MSMEs), with a more general sense of direction that all aspects of Philippine business will gear up towards a more sustainable perspective in its operations.

NRI Manila Branch sees three (3) major trends as a major mover in the coming year, which are:

1. Updates to Sustainable Finance Policies

Following the release of Bangko Sentral ng Pilipinas (BSP) Circular 1187 and Securities and Exchange Commission (SEC) Memorandum Circular 5-2024 (Philippine Sustainable Finance Taxonomy Guidelines or SFTG) last February 2024, financial institutions and large businesses in the Philippines have begun to align and implement their own policies and strategies to the latest set of policies. The focus has significantly shifted from policy-setting to implementation and enforcement.

The SFTG intends to direct, accelerate, and increase capital flows to economic activities that promote sustainability objectives. This includes greenhouse gas (GHG) emissions reduction strategies and the buildup to climate resilience. The guidelines also intend to promote transparency and credibility by minimizing the risk of greenwashing and supports a just transition to a sustainable economy. The guidelines prescribe a three-tiered traffic-colored system (green, amber, and red) for the banks to assess projects based on environmental and social impact. Projects under the green tier are projects that are high in positive impact (e.g., renewable energy or community development) and therefore more sought after, while projects under the red tier (such as new coal power) are not to be pursued or may require negative screening. These policies are now being implemented in sustainability and green bonds and loans offered for potential large project applications with Philippine universal and commercial banks. Discussions are also underway to include these in retail banking offerings (e.g., auto, housing) with the possible inclusion of household renewable energy installations or favorable rates for electric vehicles.

Apart from sustainable finance policies, carbon credits and sustainable finance projects such as the Green Climate Fund are also given more interest in 2025 especially on how to expand access to these initiatives for projects in the Philippines.

In addition to sustainable finance, digitalization as part of financial inclusion has also progressed in the Philippines, with the aim of providing a faster, but more inclusive banking system for anyone in the Philippines if they have mobile access. Initiatives to expand access to InstaPay and PesoNet, as well as digital banks and microfinance companies that continues to align with this latest thrust of the BSP. As more and more people have access to the internet across the country, digital app transactions are expected to grow further as well due to ease of access and transaction. Challenges remain, however, on data security and ease of access though these are being addressed through innovative approaches and advancements in technology in ensuring fast, but safe and secure solutions.

2. Sustainability Reporting and Initiative Expansion

The much-anticipated revisions to the SEC Sustainability Reporting Requirements first set in 2019 are about to be finalized by 2025 based on the latest pronouncements from the SEC. The upcoming set of regulations incorporates the latest international sustainability standards such as the latest International Reporting Standards Foundation (IFRS) Sustainability Standards. It also ensures further transparency with the launch of the digital reporting platform for the Sustainability Report (SuRe) Form during the SEC-PSE Corporate Governance Forum last November 2024 and contains specific KPIs for Sustainability- and Climate-Related Risks, Opportunities & Metrics.

The latest pronouncements from the Philippine Sustainability Reporting Committee (PSRC) in July 2024 is that initial adoption of IFRS S1 (General Sustainability) and S2 (Climate-related Disclosures) will be done by Philippine publicly-listed companies by 2026, with full adoption by 2027 or 2028 and will be done in stages based on company size and/or if they are publicly listed or not. This includes provisions such as the shift to double materiality, inclusion of analysis of company resilience through the use of climate scenario analysis, expansion of environmental and social sustainability and mandatory Scope 3 carbon emissions reporting. More developments are expected with ongoing discussions between stakeholders and the SEC on the adoption.

Lastly, efforts are expected in 2025 to expand awareness and integrate sustainability principles into micro, small, and medium enterprises (MSMEs), which comprise more than 99% of Philippine businesses. Continuing efforts have been made by organizations such as the Makati Business Club and Sustainable PH to introduce a mentoring-type arrangement in place. However, more initiatives related to trainings on sustainable business are expected next year from the Philippine Chamber of Commerce and Industry (PCCI) and the Employers Confederation of the Philippines (ECOP). Such initiatives may be useful for larger companies that are active in sustainability-related initiatives such as having robust environmental and social supplier assessments. The SEC also is promoting the importance of sustainability-related disclosures through the SEC Small and Medium Industries and Large Enterprises Embracing Sustainability (SMILEES) Roadshow held last March, June, and September 2024 in Cebu, Davao, and Baguio, respectively. SMILEES aimed to promote sustainable practices among businesses by promoting awareness, capacity building, developing measuring tools, establishing effective monitoring schemes, and allowing the participants to share and learn from each other on sustainability practices through interactive sessions among stakeholders and the regulator.

Companies in the Philippines are encouraged to expand their understanding of how pressing topics such as climate, biodiversity, local community development, and even governance will play a role for both operations and value chain through implementing and developing strategies from the mapping of both financial and non-financial impacts to their businesses. Also, going beyond regulatory compliance will continue to be the guiding principle in sustainability reporting with value chain involvement in sustainability initiatives.

3. How will external events in 2025 shape national and regional sustainability efforts

Three major developments that have started in 2024 may hold sway in the development of sustainability initiatives in both the Philippines and in Southeast Asia:

Trump 2.0 – With the election of Donald Trump as President of the United States in 2025, it is predicted by some sustainability practitioners that efforts coming from the United States in leading the sustainability charge will slow down within the first year of his presidency. This is due to the shifting of attention towards inward looking economic policies and less on matters related to environmental and social issues such as climate change.

European Sustainability Reporting Standards (ESRS) expansion – Sustainability initiatives in the Philippines and in Southeast Asia, however, may be shaped more with the development of more standards from the European Union. In 2024, more consultations were being made in the expansion of the ESRS to include topics on value chain disclosures, circular economy, water and marine resources, biodiversity and ecosystems, and business conduct. As more businesses in the region are entering the European market, there may be an expectation that disclosures similar to the ones that will be published may be required by companies with European connections.

Climate Action and COP 29 – The recently concluded COP 29 in Azerbaijan secured USD 300 billion worth of public financing until 2035 to combat climate change in developing countries. Although considered as not enough to work on climate-related programs, it is seen as a step forward in implementing national adaptation plans (the Philippines published theirs in May 2024, along with the implementing). In addition, rules on carbon credit trading have been more clarified, which would now include bilateral carbon trading rules between countries and crediting mechanisms on emission reduction projects. It would be expected then that the conversations toward carbon credit trading will be further enhanced with these developments, along with more climate-related solutions that would be funded by either governments or multilateral financial institutions (e.g., Asian Development Bank, World Bank). Discussions and consultations are also underway in the updating of the Philippine Nationally Determined Contributions to the Paris Climate Agreement that was last updated in 2021 and is targeted to be approved and submitted by the UN by around September 2025.

The Electric Vehicle Industry in the Philippines

by Hiromu Matsuoka

The electric vehicle (xEV) industry in the Philippines is at a pivotal moment, marked recently by emerging opportunities and rapid growth, with sales increasing significantly in 2024. While hybrid electric vehicles (HEVs) currently dominate the market, battery electric vehicles (BEVs) are beginning to gain traction. Despite this, significant challenges remain, including high costs, limited charging infrastructure, and reliance on imported components. As the country works to address these barriers and align xEV adoption with renewable energy goals, the future of the Philippine xEV market holds promise for both the environment and economy.

1. Current Status of EV Penetration

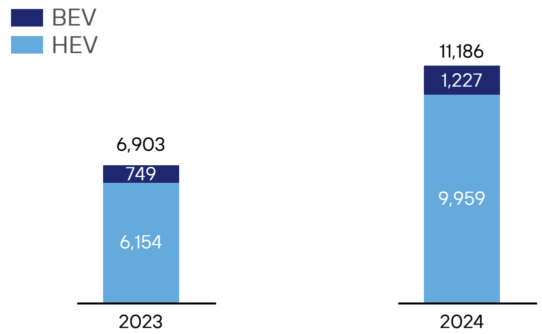
The Philippine xEV market is still in its early stages, with xEVs comprising nearly 4% of total 4-wheeler vehicle sales, amounting to 11 thousand units sold out of 304 thousand from January to August 2024.

Despite this, the market is steadily growing, with hybrid electric vehicles (HEVs) currently dominating the landscape[3] This distribution can be seen in Figure 1a, which shows that 6,154 of the country's total xEV stock is HEVs, which accounts for roughly 89%. This trend seems to be continuing, based on the most recent sales data, as can seen in Figure 1b. Of the 11,186 four-wheeler xEVs sold from January to August 2024, 9,959 were HEVs, which is also approximately 89%. Notably, the xEV sales in the first eight months of 2024 alone exceeded the total xEV stock recorded at the end of 2023, highlighting the rapid growth of the xEV space in recent months. This also underscores the significant room for growth for battery electric vehicles (BEVs), which still occupy only a small portion of the market.

Figure 1. Market size of 4-wheeler xEVs in the Philippines

Figure 1a. Registered 4-wheeler xEVs (EV stock as of Dec. 2023)

Figure 1b. Sales of 4-wheeler xEVs (from Jan-Aug 2024)



Note: BEV (Battery EV) is an EV with an electrically propelled vehicle with only a traction battery as a power source for vehicle propulsion. HEV (Hybrid EV) is an EV with both a rechargeable energy storage system and a fueled power source for propulsion.

Source: Department of Transportation - Land Transportation Office (LTO), Chamber of Automotive Manufacturers of the Philippines (CAMPI), Truck Manufacturers Association (TMA)

In terms of brand distribution, **Japanese brands currently dominate the HEV market**, though their stronghold is gradually being challenged by Chinese brands like Haval, DFSK, and Chery, which are steadily gaining ground. In contrast, **the BEV market is more fragmented, with China leading in market share, followed by Germany and South Korea.** The BEV space is divided between affordable offerings from Chinese brands such as BYD and Wuling and luxury options from European brands like BMW and Mercedes.

2. EV Market Outlook

Given the past trends and current policies, NRI expects the BEV penetration in the Philippines to be moderate over the coming years, with potential growth of 4.0%–8.8% by 2030, based on trends in Thailand and Indonesia. These growth estimates are based on factors such as Gross National Income per capita, BEV prices, and charging stations per population.

Assumptions and/or conditions for projections: [1]

1. **Infrastructure Development:** Expansion of EV charging stations in line with the Comprehensive Roadmap for the Electric Vehicle Industry (CREVI).
2. **BEV Prices:** Projected to remain relatively stable through 2030, with minimal price changes, in line with the projected global EV price trends.
3. **Increase In GNI per capita:** A projected compound annual growth rate (CAGR) of 6.5% in GNI per capita from 2024 to 2030.

By combining stable BEV prices and an increase in GNI per capita, the relative price of BEVs compared to average income is expected to decrease over time, making BEVs more affordable to a broader segment of the population.

The 4-wheeler market in the Philippines is projected to experience steady growth, increasing from 435 thousand units in 2023 to 613 thousand units by 2030, with a CAGR of 5.0%, as shown in Figure 2. While this growth rate appears modest, it is largely in line with regional trends, as Thailand's 4-wheeler market is projected to grow at a CAGR of 5.9% and Indonesia at 4.3% over the same period.

The BEV penetration ratio in the Philippines is expected to increase gradually. From January to August 2024, the BEV penetration rate stood at just 0.4% of total 4-wheeler vehicle sales. However, as policies strengthen and infrastructure develops, this figure is projected to grow significantly by 2030 under two different scenarios.

1. **BAU Scenario:** A gradual expansion of EV charging infrastructure, with 600 EV charging stations by 2028 and 1,800 by 2034, **the BEV penetration ratio is forecast to reach 4.0% in 2030.**

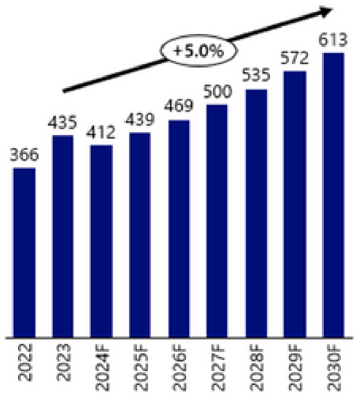
2. **Clean Energy Scenario:** A more aggressive rollout, with 2,200 EV charging stations by 2028 and 3,700 by 2034, aiming for rapid expansion of the EV market. In this scenario, the **BEV penetration ratio could reach 8.8% in 2030.**

Starting with 0.4 thousand units sold in 2023, the market could reach 24.5 thousand units under the BAU scenario by 2030.

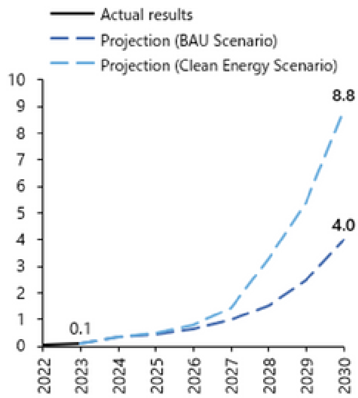
In a more aggressive Clean Energy scenario, sales could increase to 53.9 thousand by 2030.

Figure 2. Philippine BEV Market Projection

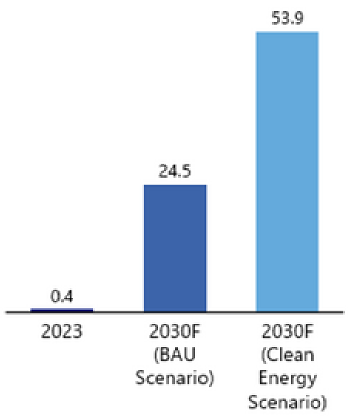
4-Wheeler Market (in thousands units)



BEV Penetration Ratio (in %)



BEV Sales (in thousand units)



Note: 4-wheeler market projection for 2024-2030 is calculated using forecasted sales data of 4-wheeler vehicles in the Philippines and Gross Domestic Product (GDP) per capita at current prices. BEV Sales projection is calculated using forecasted sales data of 4-wheeler vehicles in the Philippines and the BEV penetration ratio.
Source: NRI Analysis

1. The effect of purchase subsidies is not directly included in the projections. However, the estimation model does account for the price level of BEVs in Thailand, Indonesia, and the Philippines indirectly reflecting the impact of subsidies. Thailand provides subsidies to vendors, while Indonesia offers tax incentives like VAT and excise tax reductions and a 0% import duty on 4W EVs, similar to the Philippines. Despite lacking direct purchase subsidies, Indonesia achieved a 3% BEV penetration rate in the first half of 2024. The projections may be optimistic due to inclusion of data from Thailand.

3. Challenges for Further Promotions of xEVs in the Philippines

Despite recent advancements, the Philippines faces several challenges in accelerating the adoption of electric vehicles (xEVs), including addressing the higher upfront costs of xEVs, expanding the charging infrastructure, and strengthening the local supply chain for xEV production.

While the Philippines has made strides in promoting xEVs, given the recent boost in sales in 2024, the development of charging infrastructure remains in its infancy. As of September 2024, there are only 563 charging establishments across the country. This represents an almost 8-fold increase from the 73 stations available in 2020. However, most of these are concentrated in Metro Manila and nearby regions, leaving many parts of the country underserved. This lack of sufficient charging stations and their uneven distribution of limits the practicality of owning an xEV for those outside urban centers and discourages long-distance travel using xEVs. A comprehensive nationwide charging network is critical for increasing consumer confidence and enabling the widespread use of xEVs.

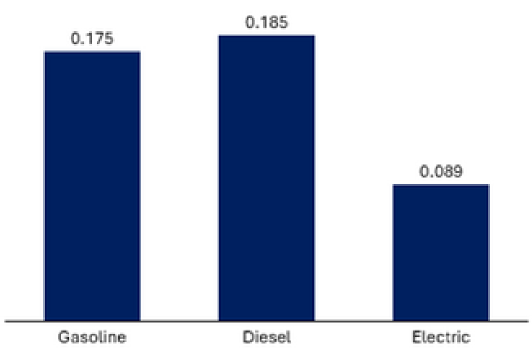
Additionally, Nickel plays a critical role in battery manufacturing, serving as a key component in the production of batteries used in xEVs. The Philippines is the second-largest producer of nickel globally and holds the fourth-largest reserves of this key battery component. However, domestically produced nickel ore is largely exported and processed into stainless steel, while **within the country, there are limited facilities for refining nickel ore into battery-grade materials, and xEV battery manufacturing plants.** This lack of value chain has made the local xEV market heavily reliant on imported components, increasing costs and reducing the potential for domestic production. However, The Philippines has made progress in addressing this challenge, exemplified by the inauguration of the StB Giga Factory, the Philippines' first manufacturing plant for advanced Lithium Iron Phosphate (LFP) batteries , which can be used for xEVs and residential purposes. The facility has an initial production capacity of 300 MWh per year, sufficient to produce about 6,000 xEV batteries.

While this is a promising development, further investment and expansion of local manufacturing capabilities are essential to meet the growing demand for xEVs and make them more affordable for Filipino consumers. The Philippines, as a major nickel producer, has attracted interest from other countries. The Philippine government is also considering collaboration with foreign governments to strengthen supply chains for critical minerals, including nickel.

3. Expected Emissions Reduction

The environmental benefits of BEVs depend heavily on the energy mix of the grid used to charge them. If the energy mix of the power grid supplying electricity to BEVs is heavily reliant on fossil fuels, such as coal or natural gas, the benefit of BEVs' zero tailpipe emissions is diminished by the greenhouse gas emissions associated with electricity generation. In 2023, 78% of the electricity generated in the Philippines was produced from fossil fuel-based sources, such as coal, oil, and natural gas, highlighting the country's continued reliance on fossil fuels. A comparison of emissions reveals that for a typical medium-body four-wheeler car, a gasoline-powered vehicle emits 0.175 kilograms of CO2 per kilometer driven, while a diesel vehicle emits 0.185 kgCO2e per kilometer, as shown in Figure 3. By contrast, an electric vehicle powered by electricity from the Philippine grid emits 0.089 kgCO2e per kilometer. Although the Well-to-Wheel emissions for electric vehicles are not zero due to fossil fuel-dominated electricity generation, they still represent a significant improvement, with 49% lower emissions compared to a gasoline car and 52% lower compared to a diesel car.

Figure 3. Emissions Associated with Different Types of Powertrains (in kgCO2e/km)



Note: Emissions for gasoline and diesel vehicles are tank-to-wheel, while emissions for electric vehicles are well-to-wheel. Emission Factors from Diesel and Gasoline were taken from the Cross-sectoral Tool Document of the Greenhouse Gas Protocol (modified March 2024), Electricity Emission Factor were taken from the Simple Operating Margin for the Luzon-Visayas Grid under NGEF 2019-2021 from the Philippine Department of Energy.

The country aims to expand its renewable energy share in the energy mix to 35% by 2030 and more than 50% by 2050. As the Philippine power grid continues to decarbonize in line with the government's long-term renewable energy goals, the emission factor of the grid is expected to further improve. Consequently, the GHG emissions reductions from the adoption of electric vehicles will be even greater under a cleaner energy scenario. Promoting the adoption of electric vehicles while simultaneously expanding renewable energy will maximize the environmental benefits.

2025 Labor Market Trends in the Philippines

by Diane Cordova

The Philippine labor market in 2025 presents a vibrant and dynamic outlook characterized by growth, transformation, and resilience. The National Economic Development Authority (NEDA) describes the market as robust, with encouraging indicators from the Philippine Statistics Authority (PSA).

Table 1. Key Labor Market Statistics

Labor Statistic	2023	Oct. 2024 (est.)	Diff
Unemployment Rate	4.90%	4.00%	▲
Underemployment Rate	15.90%	12.10%	▲
Labor Force Participate Rate (LFPR)	64.90%	64.30%	■

NRI Interpretation and Analysis of Key Labor Market Statistics:

Unemployment Rate: The 0.90 decline underscores a steady economic recovery. The estimated rate of 4% is at par with major Asian economies and even better than that of India (7.9%) and China (5.1%). With a lower unemployment rate, the pool of readily available job seekers has shrunk, intensifying **competition for skilled workers.** Business leaders need to **refine their attraction and retention strategies** including strategic talent sourcing, competitive compensation and benefits packages.

Underemployment Rate: Improvement in underemployment rate of 3.8% suggests better alignment between job opportunities and worker skills or expectations. Although underemployment is improving, business leaders should **collaborate with educational institutions** and align with **government initiatives to further upskill workers**, ensuring a steady **pipeline of high-quality talent.**

Labor Force Participate Rate (LFPR): The stable LFPR suggests that barriers like access to education, caregiving responsibilities, or skill gaps may still limit workforce participation. Business leaders can explore **flexible work arrangements and inclusivity programs** to attract untapped talent pools, such as women re-entering the workforce or people with disabilities who may be highly skilled and capable.

The Philippine labor force is anticipated to see shifts in workforce demographics and skills development, workplace flexibility arrangements and the increased use of generative AI in the workplace. By preparing for the key trends outlined in this report, HR and business leaders can ensure the labor market remains robust and continues to thrive amid the challenges and opportunities that lie ahead.

Key Trend #1: Acceleration of Digitalization and its Impact on Emerging Skills for the Future

The world of work is evolving at an unprecedented pace. And when technology advances, businesses and the way we do work also transform. Generative AI (Gen AI) is anticipated to revolutionize employment in 2025 and beyond. **Half a billion net new jobs are forecasted globally by 2033** as a direct result of AI-driven innovation (Gartner, 2024). By 2027, AI's productivity value will be considered a **primary economic indicator**, reshaping labor strategies (SHRM, 2024).

In the Philippines, the BPO and IT sectors provide a case study on AI's dual impact. While some roles may be automated, AI is also enabling **value-adding opportunities** in data analytics, automation, and customer personalization. However, challenges persist around AI's ethical use, energy consumption, and potential biases.

Organizations must prioritize trustworthy and transparent AI applications to ensure sustainable benefits.

To navigate these changes, business leaders must anticipate how to grow their workforce by (1) leveraging on technology to build organizational capabilities while (2) encouraging employees to develop more human-centric soft skills that will prove to be indispensable in the face of generative AI solutions.

The digitally oriented (hi-tech) yet human-centric (hi-touch) skills the workforce should enhance are:

1. **Digital and Technology Skills**
   - ·**Data Analytics and AI**: Critical for BPO, retail, and manufacturing sectors
   - ·**Cybersecurity**: Essential across all industries to safeguard digital ecosystems
   - ·**Software Development & Automation**: High demand for programming, cloud computing, and automation expertise

2. **Soft Skills:** Human-centric abilities, such as **critical thinking, emotional intelligence, and interpersonal communication, remain indispensable.** NRI observes an upward trend towards business leaders wanting to learn and leverage on **people analytics** in **deriving insights** from its people capabilities and drive **strategic and data-driven decision-making.**

Implication for Private Companies:

- Invest in AI training to upskill employees for high-value tasks.
- Develop ethical guidelines and ensure transparent AI deployment.
- Balance automation with opportunities for workforce innovation, positioning the organization for sustainable growth.

Key Trend #2: Increasing Government Initiatives that push Innovation and Transformation

The Philippine government envisions the nation to be the **center of excellence for AI research and development.** It has allocated over PHP 70 million budget for the next 2 years to turn the Philippines into a digital hub (PNA, 2024).

According to the **2024 Global Innovation Index (GII)**, the Philippines is a newcomer in the Top 3, and ranked 3rd (next to India and Vietnam) among 38 countries in the category for emerging economies (lower middle-income) category, displaying a strong progress in its innovation ecosystem.

The following government initiatives drive technology adoption and economic incentives for technical skills development, collectively building an **innovation-driven ecosystem.**

Table 2. Government Programs and Objectives

Gov't Program	Program Objectives
National AI Strategy Roadmap 2.0 (NAISR 2.0) and Center for AI Research (CAIR)	Creates new opportunities in software development, cybersecurity, and data analysis to **increase AI adoption** and leverage it to **solve critical social problems** Fosters **public-private partnership** that will serve as a hub for **collaborative cross-disciplinary AI research**
Digital Cities	Drives **growth and development in selected regions** and transforming them into progressive IT and Business Process Management (IT-BPM) hubs within the next 5 years
CREATE MORE Bill *(Corporate Recovery and Tax Incentives for Enterprises, Maximize Opportunities for Reinvigorating the Economy)*	Enables **flexibility in workforce operations**, on top of its primary intent of enhancing the Philippine tax incentives policies to attract foreign investment.

NRI Interpretation and Analysis for Government Programs and Objectives

NAISR 2.0 & CAIR: While this implies an increase in investment in the development of digital skills, it will also **intensify the war for STEM and highly skilled talent.**

Companies that belong to the following industries that are most impacted by this should proactively **consider creating strategies for talent attraction and retention of technical talents,** such as policies on hiring incentives, allowance or premium pay for matching skills that are critical to their respective business operations.

- Industrial, Manufacturing, and transportation (IMT)
- Technology, Media and Telecommunication (TMT)
- Health & Life Sciences (HLF)

Digital Cities: Business leaders in any of the 25 digital cities (including Batangas, Laguna and Cavite) can anticipate **more opportunities to collaborate** with national and local government incentivizing **job creation, skills development and retention.**

CREATE MORE Bill: Registered Business Enterprises (RBEs) may be allowed up to 50% **work-from-home (WFH) arrangements** (Section 26), which is lower than 2021 (90%) and 2022 (75%).

This presents renewed challenges for HR leaders on how to once again pivot flexible work arrangement (FWA) policies, workspace allocation, etc. They must assess how FWA policies align with their strategic business goals and consider alternatives, such as Board of Investments (BOI) registration, to allow more **operational adaptability.**

This shows that the call for innovation and transformation applies not only to business operations but also to the workforce. When technology advances, businesses and the way we do work also transform.

An article in Sustainability Journal (2024) discusses how FWAs positively affect innovative work behavior. The implementation of remote work and flexitime allows employees to concentrate better and plan tasks spontaneously, leading to improved efficiency and a higher likelihood of engaging in innovative behaviors. A study by the University of Oxford and Harvard University stating the **business case for flexible work arrangements (FWA)**. They have found that companies with higher employee satisfaction, often due to flexible working practices, exhibit greater profitability and stock market performance.

The rise of AI-driven tools and digital transformation initiatives has enabled companies to **adopt flexible work arrangements.** In the Philippines, reception to remote work has seen a steady increase. JobStreet's 2023 study cited that willingness of Filipinos to work remotely for employers with no physical offices in the Philippines has increased from 75% in 2020 to 85% in 2023. This means the competition for talents may no longer be concentrated in companies within neighboring areas but expands to outside of the country, where remote work is available.

In a recent ASEAN talent study conducted by NRI where we surveyed over ~1,000 employees from various companies, 200 of them coming from the Philippines, that **60% prefer flexible work over structured and systematic approach.** Employees from Gen X and Gen Y are the primary drivers with 67% and 60% respectively. Interviews with HR industry experts support this, with one HR expert from the healthcare industry saying: **"Flexible work arrangements and greater benefits are valued more by younger new hires"**. Another HR leader from digital / telecommunications industry stated: **"younger generation prefers higher flexibility rather than higher benefits".**

These advancements not only **improve work-life integration** for employees but also **support inclusive hiring practices** by creating remote and technology-enabled roles accessible to diverse talents, including persons with disabilities and those from underrepresented communities. By linking technology with well-being and inclusivity, organizations are building resilient, future-ready workplaces that align with global sustainability and equity goals.

Implications for Private Companies:

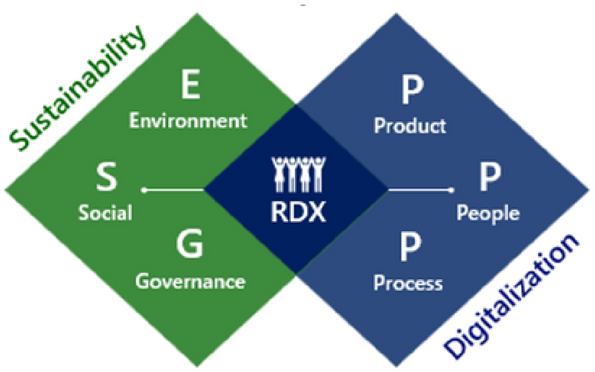
- Leverage government programs to explore and promote public-private collaborations.
- Prioritize STEM and digital skill development within the workforce to meet emerging demands.
- Reassess workforce policies to strike a balance between employee flexibility and productivity.

Key Trend #3: Regenerative Digital Transformation paves the way for Positive Organizational Change

While the Philippines do not have stringent policies on Human Capital Disclosure yet, medium to large scale companies, especially those seeking to be globally competitive (i.e. need foreign investment or with international customers and partners) have **taken steps towards more effective Sustainability reporting.** For most, it has become a strategic imperative to satisfy the clamor of key stakeholders who are more socially responsible and aware.

The challenge for business leaders is to Ensuring ESG initiatives go adopt sustainability reporting as a way of life, but beyond compliance, the intention is to to create tangible impacts for employees and communities. One key example is how companies are pursuing DEIB (diversity, equity, inclusivity and belongingness) that will be more than achieving the target distribution of male vs. female but how to reconfigure work dynamics in the workplace to realize the real power of DEIB in the workplace, harnessing of diverse skills and capabilities.

As the country leaps forward towards digitalization and innovation, business leaders must take conscious consideration about its dual impact. Technology is neutral – but how it is used determines whether it will have a negative or positive impact towards people. Given this, there has been a notable **growing interest in the concept of Regenerative Digital Transformation (RDX)**, which is an advanced approach to digital transformation that aims to restore, renew, and revitalize the environment and society.



Source: NRI Manila (2024)

What is Regenerative Digital Transformation? It is an approach to leveraging technology for growth & innovation while actively contributing to the well-being of people, communities, and the planet. It goes beyond simply minimizing harm, but actively aims to create systems that restore, renew and revitalize – producing positive impact on the environment and society.

Instead of just reducing waste or emissions, it **focuses on implementing technologies that restore ecosystems**, like AI for optimizing energy use. Another example is pushing the agenda for **developing digital tools beyond automation and efficiency**, but towards solving people problems on quality of work, well-being and inclusivity. One key example is the pioneering concept of Talent Marketplace (TMP), developed in NRI Tokyo. It promotes diversity and inclusivity by leveraging on AI in scanning the organization for targeted skills and capabilities, reducing subjectivity and bias, which is often the people-related issue in internal hiring.

NRI tackled the importance of **shifting leaders' mindset** from traditional models that prioritize short-term profit to **putting people at the center of all digital initiatives** to ensure that it serves a broader and more positive purpose not just for profit, but also for the people and planet.

Implication for Private Companies:

- Integrate Sustainability Reporting with Core Business Strategies to ensure global competitiveness
- Enhance Human Capital Disclosure for Transparency and Employee Engagement
- Leverage Regenerative Digital Transformation for Competitive Advantage

HR leaders will play a pivotal role in shaping a future-ready Filipino workforce: from leveraging AI to improve the employee experience - to adopting flexible work models that balance the needs of the organization and its people, while also prioritizing sustainability and the upskilling of their growing workforce. By aligning strategies with technological advancements and ethical practices, business leaders can drive innovation and remain globally competitive while advocating for a more human-centric and sustainable future.

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