

## Q1 2026 Economic Update

The gradual economic recovery hoped for may take longer than expected.

*After posting 4.4% growth in 2025, its slowest post-pandemic, prospects of an economic rebound hit a snag. Analysts now forecast growth for 2026 to be around the low-to-mid 5% while the government has trimmed its target to 5-6%, lower than prior goals of 6-7% annual growth.*

A challenging domestic environment, compounded global geopolitical shocks, could further test the resilience of the Philippine economy. The impact of the corruption scandals continues to linger and stall infrastructure developments. Though domestic consumption remains the vital anchor of the economy, curbed domestic spending due to increasing graft scrutiny along with eroded investor confidence must be overcome to get the economy back on track. Meanwhile, escalating USA-Iran tensions in the Middle East threaten with additional risks ahead. Given the region's importance to global energy supply, disruptions to operations and transportation especially in the Strait of Hormuz, a critical passageway for 20% of global oil, could trigger further oil price hikes. Heightened

tensions may also strengthen the US dollar, viewed as a safe haven in times of uncertainty, and raise the cost of imports into the Philippines. Together, along with the risks to deployment of OFWs, could further drag on consumer confidence.

Domestically, strengthening institutions, improving governance, and rebuilding confidence of both investors and consumers are essential for a more robust and resilient economy. Although analysts expect the Bangko Sentral ng Pilipinas to revisit its policy rates given that inflation is still well within their target window of 2-4%, monetary policy will not suffice. Structural reforms and sustained project implementation are equally necessary. Improving transparency while strengthening investments in human capital and critical infrastructure can aid in the restoration of public trust and establish the groundwork for more inclusive and sustainable growth.

### Protecting the Middle Class

*The expansion of the middle-income class has been instrumental to the recovery of Philippine economy, spurring consumer demand with higher income.*

The middle-income class also plays an important role in bridging the poor and the rich, thereby ensuring economic stability. With all these contributions to the economy, it is therefore necessary to sustain the continuous expansion of the middle-income class and protect them from external shocks.

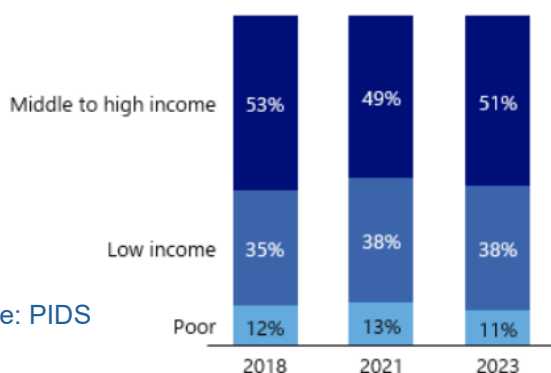
A recent study by the Philippine Institute for Development Studies (PIDS) revealed, however, that a percentage of the middle-income class remain vulnerable to different factors. The study shows that 21% to 24% of the non-poor households are vulnerable to falling into poverty due to income fluctuation, sudden health crises, job market volatility, and climate-related risks. Figure 1 shows that during the pandemic (where most of the previously mentioned risks are present), the household share of middle to high income class had contracted. This presents the reality that it is not enough to earn income above the poverty line. There should also be enough shock absorbers in the form of savings or insurance to manage household expenses in case of unexpected events.

At this point, both the private and public sector have opportunities to address this vulnerability. As mentioned in the study, social protection policies of the government should shift from short-term poverty alleviation to increasing financial resilience both for the poor and vulnerable groups. Policies should expand their coverage and focus on risk protection mechanisms. Here, the private sector can also support and potentially provide enhanced access to credit, insurance and savings mechanisms by offering services targeted at the vulnerable segment. By properly equipping the vulnerable group, even if external shocks or unforeseen events happen, they won't be forced to forego of health or education spending which are equally important in building a strong human capital.

### Healthcare paradox

*As mentioned, healthcare spending is one of the largest financial risks faced by Filipino households. On average, around 40% of healthcare spending is paid out-of-pocket by patients.*

Figure 1: Distribution of Household by Income Group



Source: PIDS

Unless individuals have their own insurance coverage, only a portion of the healthcare bill is subsidized by the government (less than 45% of the total current health expenditure). While

many healthcare programs and subsidies are directed toward the low-income population, middle-income households often fall into a coverage gap – earning too much to qualify for extensive government support but not always having sufficient financial protection against large medical expenses. As a result, unexpected health shocks such as hospitalization or chronic illness can quickly erode household savings and heighten the vulnerability of middle-income families.

(HMO) plans or private healthcare insurance plans. In recent years, HMO providers have begun debundling traditional products and introducing prepaid health plans at more affordable price points. This allows individuals and families to access basic healthcare services without committing to full corporate-type coverages and help extend protection to the underserved (i.e., lower-middle and emerging middle-income groups).

From the government’s side, strengthening preventive healthcare and primary care systems can also influence healthcare spending patterns in the long run. Historically, healthcare expenditure in the Philippines have been largely driven by curative care, with patients often seeking treatments only after conditions have worsened and require more expensive interventions. Expanding access to primary care facilities, promoting early diagnosis, and encouraging lifestyle changes can help reduce the incidence of severe illnesses while lowering the long-term healthcare costs for both households and the healthcare systems. Together, improvements in financial protection and preventive care can help shield the middle class from health-related financial shocks while supporting the development of a healthier and more economically resilient and productive population.

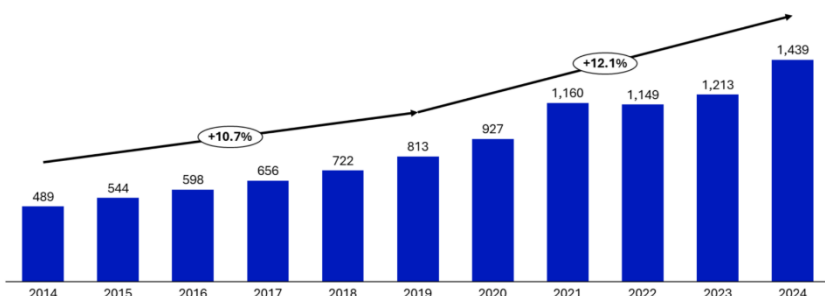


Figure 2: Current Healthcare Expenditure (in billion PHP)

Source: PSA

Beyond the immediate financial burden, healthcare shocks have broader economic implications. When households are forced to allocate funds to medical expenses, spending on other essentials may be affected, along with overall domestic demand.

On the business side, this persistent gap in healthcare coverage presents opportunities for the private sector to expand financial access. To mitigate healthcare spending risks, consumers may avail of Health Maintenance Organization

## About the Contributor



**Ayra Mae Fernando**

Manager

[ayramae.fernando@nrisg.com](mailto:ayramae.fernando@nrisg.com)

Ayra is a Manager under Business Strategy Sector of Nomura Research Institute (NRI) Singapore - Manila Branch. She specializes in business analysis and steering, management reporting, and forecasting.

Ayra has a demonstrated history of working in Tax and Controlling (Finance). Prior to NRI, Ayra has worked to Nestle Philippines as Regional Sales Controller for Grocery Sales and Commercial Development Team. She was also a Business Controlling Analyst at Henkel, where she covered the Beauty Care unit in North America and APAC.

A Certified Public Accountant (Top 13), Ayra graduated with a degree in Accountancy as Cum Laude from De La Salle University.



**Ria Ching**

Senior Consultant

[ria.ching@nrisg.com](mailto:ria.ching@nrisg.com)

Ria Ching is a Senior Consultant under Business Strategy Sector of Nomura Research Institute Singapore - Manila Branch. She specializes on taxation across various industries.

Prior to NRI, she was a senior tax manager for KPMG Philippines. She graduated with a degree of BS Accountancy (Summa Cum Laude) from De La Salle University Manila and is a Certified Public Accountant (Top 12).



**Joshua Co**

Consultant

[joshua.co@nrisg.com](mailto:joshua.co@nrisg.com)

Industry Expertise: Financial Services

Josh joined NRI Manila in 2021. He has worked on projects in the food and beverage, healthcare, and financial services industries. He has a bachelor's degree in Management Engineering from Ateneo de Manila University.

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[nrimanila-inquiry@nrsg.com](mailto:nrimanila-inquiry@nrsg.com)



26/F Yuchengco Tower, RCBC Plaza,  
6819 Ayala Avenue, Makati City  
Philippines