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Global Markets Research

Research Alert

MTI upgraded 2025's GDP growth forecast to "around 4%"

Realistic upgrade given better than expected final 3Q GDP print for Singapore
Softer 1-3% growth for 2026; more pronounced tariff impact; trade-sectors to normalise
Stronger GDP bodes well for our "on hold" view for MAS; expect stronger SGD ahead

Summary

Final 3Q GDP growth was revised 1.3ppts higher to 4.2% y/y in 3Q. This marks a smaller than expected deceleration from the 4.7% y/y growth (upwardly revised) in 2Q, but was above consensus forecast of 4.0% y/y. On a yearly basis, growth was mainly driven by the manufacturing and finance & insurance sectors on the supply side and on the expenditure side, steady private consumption and external demand amid an acceleration in gross fixed capital formation.

In tandem with this, the government also revised its GDP growth forecast for 2025 to "around 4.0%" from 1.5-2.5% previously, and expects 2026 growth of 1.0-3.0%. In terms of monetary policy, the strong growth bodes well with our view of a MAS holding pattern in the next monetary policy meeting, supporting the SGD against the greenback going forward**.**

A snapshot on the 3Q numbers

The Singapore economy expanded by 4.2% y/y and 2.4% q/q in 3Q (2Q: 4.7% y/y and 1.7% q/q). With growth averaging 4.3% YTD, we thus opine that the "around 4%" forecast for the whole of 2025 pencilled by the officials is a reasonable projection.

Accordingly, 3Q GDP was mainly driven by the manufacturing (5.0% y/y vs 5.1% y/y), and finance & insurance (4.6% y/y vs 4.2% y/y) sectors. Within manufacturing, growth was led by the electronics, transport engineering and biomedical manufacturing clusters. In particular, the electronics cluster expanded by 6.1% y/y on account of a significant increase in the demand for AI-related semiconductors, servers and server-related products. Demand for AI-related products also boosted sales for machinery, equipment & supplies segment, thus the wholesale trade sector. Growth in the finance & insurance sector was supported by banks' net fees and commissions as business and investor sentiments improved.

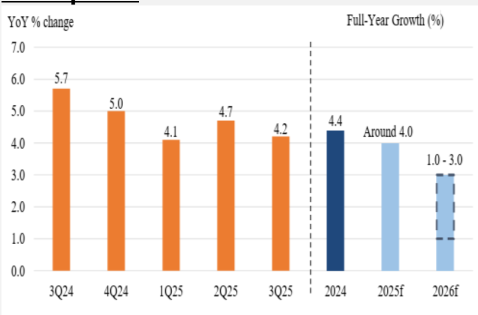
On the expenditure front, growth was driven by sustained private consumption (3.6% y/y vs 3.7% y/y) and a pick-up in gross fixed capital formation (5.5% y/y vs 4.3% y/y) on the domestic front, which offset the slower government consumption recorded during the quarter (3.0% y/y vs 5.7% y/y). Net export contributions to GDP were likely lower as a still robust export growth (8.4% y/y vs 10.0% y/y) was offset by a marginal pick-up in imports (9.8% y/y vs 9.6% y/y).

Outlook

As mentioned, with growth averaging 4.3% YTD, we opine that the "around 4%" forecast pencilled by officials is a reasonable projection for the whole of 2025, while a de-escalation in trade tensions recently also improves outlook for Singapore's external demand.

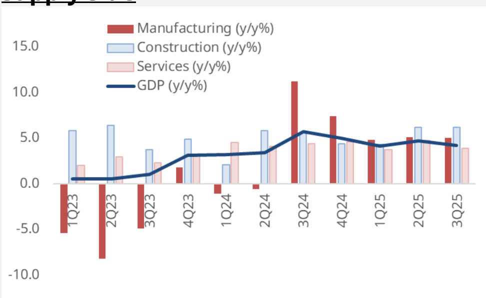
Moving forward into 2026, MTI expects growth to moderate from the current above-trend pace to 1-3% as activity normalises in the trade-related sectors and as impact of the US' tariffs is expected to be more pronounced. MTI flagged downside risks on two fronts, namely: 1) Elevated global economic uncertainty from geopolitical tension and tariff actions, the latter in our opinion, could include threats of increased rates on

Figure 1: Growth has been stronger than what officials and market had anticipated



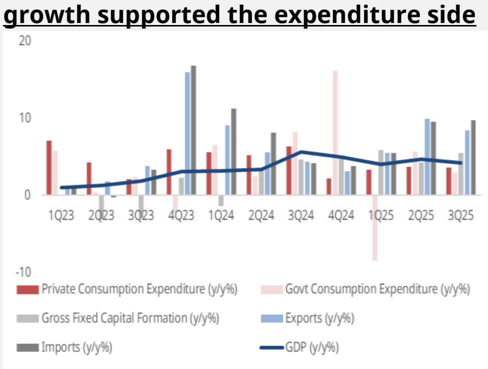
Source: MTI, Singstat

Figure 2: Manufacturing and finance & insurance sector drove growth on the supply side



Source: MTI, Singstat

Figure 3: Steady private consumption and continued albeit softer export growth supported the expenditure side



Source: Singstat, HLBB Global Markets Research product-specific tariffs. 2) A risk-off sentiment which could trigger sharp corrections in global financial markets, potentially spilling-over to broader economy.

Because of the risks above, the manufacturing and trade-related services sectors are expected to grow at a slower pace, with output from the biomedical manufacturing cluster to moderate from the high levels seen in 2025, while the electronics sector may face headwind from semiconductor firms postponing new investments until there is greater clarity on US' stance on semiconductors.

That said, continuing global investments in AI (SIA projected double digit growth for semiconductors in 2026), the ongoing shift towards higher-value maintenance, repair & overhaul works in the aerospace segment as well as strong order books in the marine & offshore engineering segment will continue to bolster growth for manufacturing and trade-related sectors. On the domestic front, infrastructure investment, accommodative financial condition, resilient enterprise demand for digital solutions and services is expected to support the economy, cushioning subdued growth for consumer-facing sectors such as retail trade and food & beverage services.

Positive for the SGD

In our opinion, MAS had continued to give a balanced outlook in the October's policy statement, having pre-emptively eased twice this year and with growth still robust up to this point, it will likely stay on hold in the January meeting and for the rest of 2026. This is positive for the SGD, especially in the continued environment of USD depreciation over the medium term. With this, we maintain our house view for ***USD/SGD to weaken from 1.30 currently toward 1.24 by the end of 2026. There is also no change in our view that SGD/MYR will rose from 3.19 to 3.27 the coming 12 months, given our USDMYR forecasts of 4.05 at end-2026. SORA rates meanwhile, is expected to inch lower tracking the decline in Fed funds and UST yields, inching down to 0.95% for the same period.***

Figure 4: House View and Forecasts

FX	1Q-26	2Q-26	3Q-26	4Q-26
USD/SGD	1.28	1.26	1.25	1.24
SGD/MYR	3.21	3.23	3.24	3.27
SORA (%)	1.08	0.95	0.95	0.95

Source: HLBB Global Markets Research

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