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Global Markets Research

Research Alert

MTI upgraded 2026’s GDP growth forecast to 2%-4%

Upgrade premised upon stronger than expected global economy and trade activities
Realistic growth forecast; manufacturing, wholesale trade & finance should stay resilient
Strong GDP bodes well for our “on hold” view for MAS; expect stronger SGD ahead

Summary

The Singapore economy grew by 5.0% in 2025. Albeit a slowdown from 2024’s 5.3%, it still sharply exceeded official’s full-year forecast of “around 4%” and marks an upward revision from 4.8% y/y that was initially estimated. In tandem with this, MTI also upgraded its 2026 growth forecast range to 2-4%, from 1-3% previously.

The upward revision for 2025 GDP came as 4Q growth was adjusted upwards to 6.9% (initial estimate: 5.7% and 3Q: 4.6%), anchored by a strong manufacturing sector (18.8% y/y in 4Q vs 5.3% y/y) and supported by a pick-up in services (4.8% y/y vs 4.3% y/y).

A snapshot on the 4Q numbers

In 4Q, the acceleration in manufacturing was supported by broad-based expansions across all clusters save general manufacturing, and largely driven by the biomedical manufacturing and electronics clusters, the latter due to strong AI-related demand for semiconductors, servers and server-related products. Both public and private sector construction output grew during the quarter, while amongst services, the finance & insurance sector saw broad-based growth across all segments amidst largely accommodative financial conditions, while wholesale trade benefitted from wholesale sales of electronic components and telecommunications & computers.

On the expenditure front, growth was driven by a pick-up in private consumption (4.5% y/y vs 3.4% y/y) and gross fixed capital formation (7.4% y/y vs 4.1% y/y) on the domestic front, which offset the slower government consumption recorded during the quarter (5.1% y/y vs 5.4% y/y). Net export contributions to GDP were likely higher amid an acceleration in export growth (12.0% y/y vs 11.5% y/y) and a deceleration in import growth (12.8% y/y vs 13.8% y/y).

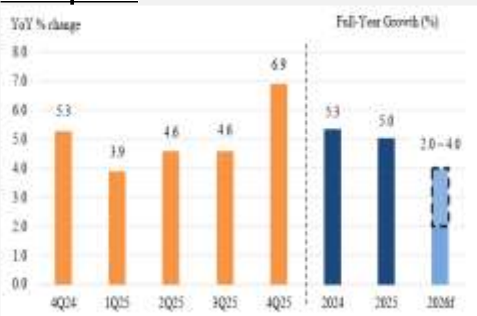
Outlook

For 2026, the upward revision was premised upon expectation that the global economy and trade activities have remained resilient and outperformed expectations. Accordingly, outlook for the manufacturing and trade-related sectors and partners have also improved, and the stronger-than-expected growth momentum seen in the last quarter of 2025 is projected to carry forward into 2026. This will be supported by sustained AI investment boom, expansionary fiscal policies for several majors like the US, Germany and Japan, as well as accommodative global financial conditions.

For Singapore, the AI boom will benefit the manufacturing sector and spillover to precision engineering, the machinery, equipment & supplies segment of the wholesale trade as well as the information & communications services sectors. Supportive macroeconomic and financial conditions will benefit the finance & insurance sectors, while strong order books in the aerospace and marine & offshore engineering segments should continue to drive growth in the transport engineering cluster.

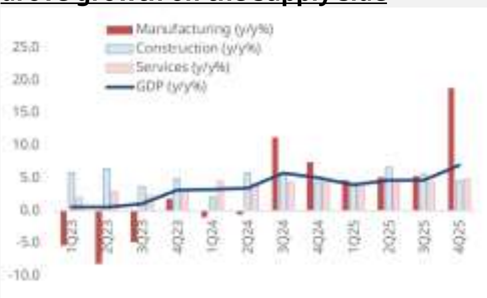
Notwithstanding, global economic outlook is subject to both upside and downside risks, upside from a stronger-than-projected upswing in the AI investment cycle, and the downside, from renewed escalation in tariff and geopolitical tensions.

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



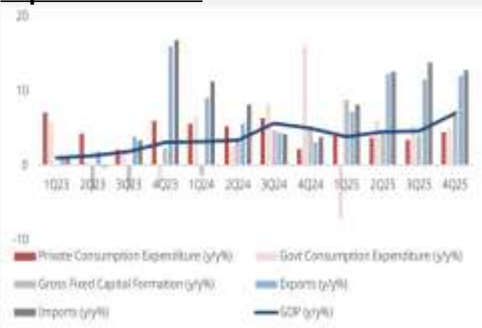
Source: MTI, Singstat

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



Source: MTI, Singstat

Figure 3: Both domestic and external demand supported growth on the expenditure side



Source: Singstat, HLBB Global Markets Research

On the domestic front, construction sector is expected to expand at a steady pace due to expansions in both public residential building and civil engineering works, while consumer-facing sectors such as retail trade and food & beverage services is likely to remain subdued, partly due to locals shifting their spending overseas and changing dining preferences.

Positive for the SGD

In our opinion, the official projection is achievable and realistic given the robust AI-related demand. With the Enterprise Singapore also revising its growth forecast for Singapore's key exports upwards to 2-4% from 0-2% previously (2025: 4.8%), we ***now expect the economy to grow by more than 3% in 2026 although growth beyond 3.5% may be a challenge.***

In terms of monetary policy, MAS had continued to give a balanced outlook in the January's policy statement, having pre-emptively eased twice last year and with growth still robust up to this point, it will likely stay on hold for the rest of 2026.

In terms of FX, SGD opened flat at 1.2657 against the greenback, weakened to 1.2668 after the 4Q result but has since strengthened to 1.2649 at the point of writing. As the result will be positive for the SGD and is in line with our view of continued environment of USD depreciation over the medium term, ***we maintain our house view for SGD to strengthen to 1.24 against USD by the end of 2026***. There is also no change in our view that SGD/MYR will rise from 3.10 to 3.22 to end 2026, given our USD/MYR forecasts of 4.00 at end-2026. ***SORA rates meanwhile, is expected to inch lower tracking the decline in Fed funds and UST yields, inching down to 0.81% for the same period.***

Figure 4: House View and Forecasts

FX	1Q-26	2Q-26	3Q-26	4Q-26
USD/SGD	1.26	1.23	1.23	1.24
SGD/MYR	3.17	3.21	3.23	3.22
SORA (%)	1.14	1.03	0.92	0.81

Source: HLBB Global Markets Research

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