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Global Markets Research

Research Alert – Singapore

MTI upped 2026 GDP growth forecast to 4.5-5.5%

2Q GDP growth revised higher to 5.9%, driven by wholesale trade, finance, manufacturing sectors

AI demand to support growth; downside risks from the geopolitical tension remains

Neutral on SGD yields; tightening bias by MAS suggests that SGD will be well supported to end 2026

Summary

The final reading of the 2Q showed that the Singapore's economy grew by 5.9% y/y during the quarter (advanced: 5.7% y/y), better than forecast but slowing from 6.3%y/y previously. On a quarterly basis, growth nonetheless accelerated to 1.4% q/q from 1.2% q/q previously. At the same time, citing the better-than-expected performance in 1H, as well as an improved outlook for the rest of the year due to the acceleration in global AI-related capex, MTI now expects the economy to grow by 4.5%-5.5% in 2026, revised up from its previous projection of 2.0-4.0%.

Details

On a yearly basis, construction (5.8% y/y vs 12.9% y/y) and services (4.9% y/y vs 6.3% y/y) remained the primary reason for the slower growth and more than offset the uptick from manufacturing (12.5% y/y vs 7.3% y/y), the latter primary driven by expansions in the electronics and precision engineering clusters on the back of robust AI-related demand.

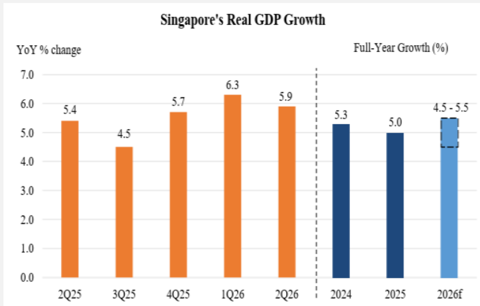
Within services, this supported the wholesale trade sector (8.3% y/y vs 13.6% y/y). Outside of trade-related front, the finance & insurance sector also grew a robust 6.2% y/y (prior: 5.3% y/y) largely driven by the banking segment amidst strong credit growth and fee-generating activities. In contrast, the food & beverage services sector fell 1.5% y/y (prior: 0.2%y/y), partly due to a sustained increase in outbound tourism and a decline in visitor arrivals during the quarter.

Outlook

Singapore's growth outlook has clearly brightened following a stronger-than-expected start to 2026. The economy has, and will continue to benefit from the global AI capex cycle, which has driven export outperformance in recent months, supported manufacturing and investment activities in the tech sector, as well as in associated spillover to related industries like trade and logistic services. With this and amid a less severe than expected impact from the US-Iran conflict, MAS revised up its 2026 growth forecast to 4.5-5.5% from its prior projection of 2-4%, a projection that is realistic in our view.

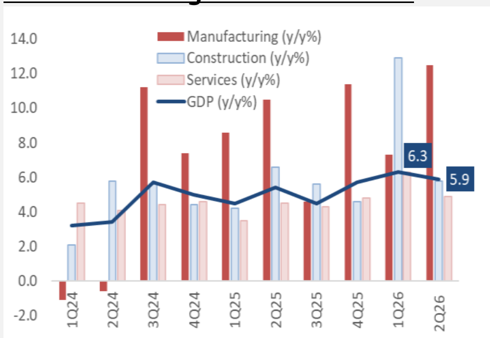
While a return to full scale conflict is unlikely, the US-Iran tension suggests that headwind persists and, in our opinion, (as well as MTI), growth could likely slow in 2H. In particularly, the chemicals sector, led by lower production in the petroleum and petrochemicals segments, has and is particularly exposed to the disruptions in feedstock supply for the conflict, partially offsetting strength in the electronics sector. A deterioration in global risk sentiment could also tighten financial conditions, see corrections in financial

Figure 1: Better than expected 1H GDP growth to be offset by slower growth ahead



Source: MTI

Figure 2: Manufacturing sector saw stronger growth; construction & services sector growth moderated



Source: Bloomberg, MTI

Figure 3: SGD is expected to be well supported by export strength, keeping MAS on a tightening bias

Source: Bloomberg

markets, and on the real economy, adding pressure on external demand, investment and spending for both corporates and households, the latter amid added dampener from the elevated cost of living.

In July, MAS 'very slightly' increased the slope of S$NEER, while leaving the mid-point and width unchanged. With the latest MAS' messaging signalling that the latest move well positioned to effectively cap inflationary pressure, there is no change in our forecast for MAS to pause through the remainder of 2026. Notwithstanding, risks remain skewed towards further tightening amid concerns that inflation could pick up more strongly than anticipated especially on the import front, and on strength of recent exports. With this, we are neutral on SGS yields, and expect the SGD to remain supported in the coming months against a backdrop of expected near-term USD strength, with the USD/SGD expected to end the year around the 1.30 level.

Figure 4: House View and Forecasts

FX	3Q-26	4Q-26	1Q-27	2Q-27
USD/SGD	1.31	1.30	1.28	1.27
SGD/MYR	3.18	3.17	3.17	3.17
SORA (%)	1.20	1.25	1.25	1.25

Source: Bloomberg; HLBB Global Markets Research

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my