

3 The Singapore Economy

3.1 Recent Developments

Growth momentum in the Singapore economy held up in Q3 2025, led by the manufacturing sector

The Singapore economy expanded by 1.3% q-o-q SA in Q3 2025 based on the advance estimates, keeping largely to the pace of the 1.5% increase in the previous quarter (Chart 3.1). On a year-ago basis, GDP growth moderated to 2.9%, from 4.5% in Q2. There was a sequential improvement in manufacturing activity, even as trade-related services recorded a mild contraction (Chart 3.2). Growth momentum in the modern services cluster eased slightly, while the domestic consumer-facing sectors returned to growth.

Chart 3.1: Singapore's GDP Growth

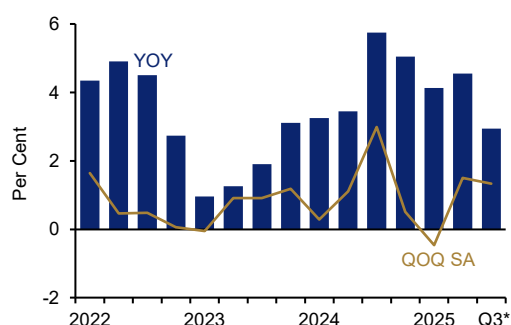
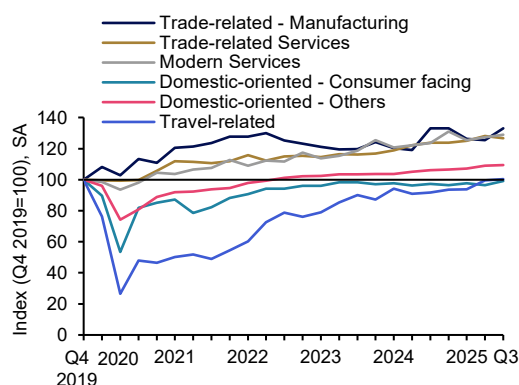


Chart 3.2: GDP By Cluster



* advance estimates

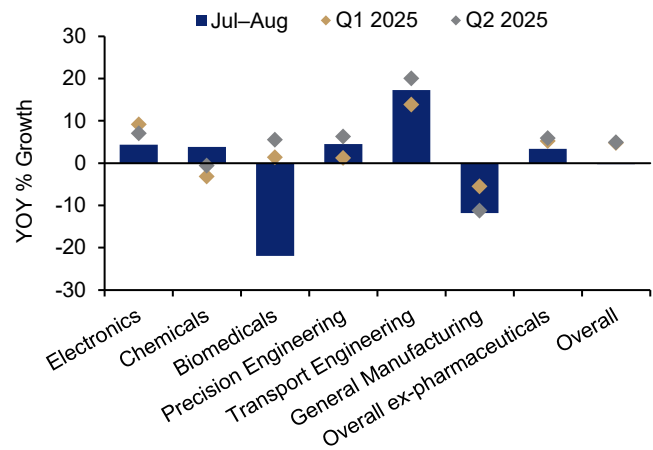
Source: DOS

Source: EPG, MAS estimates

Domestic production and exports have benefited from AI-related demand

The manufacturing sector was broadly supportive of growth in early Q3. The Index of Industrial Production (IIP) expanded by 3.2% on an SA basis in Jul–Aug compared to Q2, improving from the 0.5% increase in the previous quarter. On a y-o-y basis, the IIP dipped marginally by 0.2% in Jul–Aug, weighed down by the biomedical and general manufacturing clusters (Chart 3.3). Excluding pharmaceuticals, the IIP grew by 3.4%, underpinned by the electronics, transport engineering and precision engineering clusters. Within electronics, the infocomms and consumer electronics segment grew strongly by 60%, primarily driven by higher output of server-related products. This segment has seen double-digit growth since early 2024, amid strong global demand for infrastructure related to artificial intelligence (AI). Recently, it has experienced an additional surge, alongside successful expansion into new export markets, such as servers for data centres in the US. On the trade front, domestic exports contracted by 9.3% y-o-y in Jul–Aug, largely due to declines in oil and chemicals exports. However, exports of data processing machines—which include servers supporting AI applications—to the US, Korea and Japan continued to record strong growth.

Chart 3.3: Index of Industrial Production

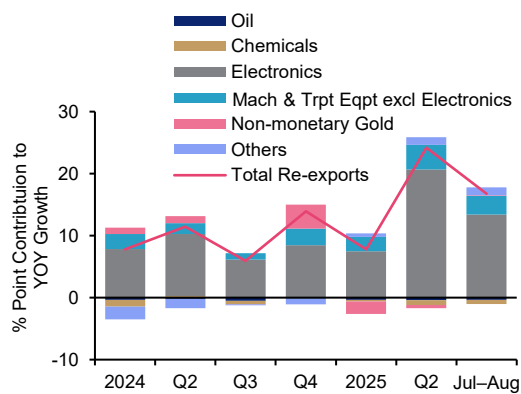


Source: EDB and EPG, MAS estimates

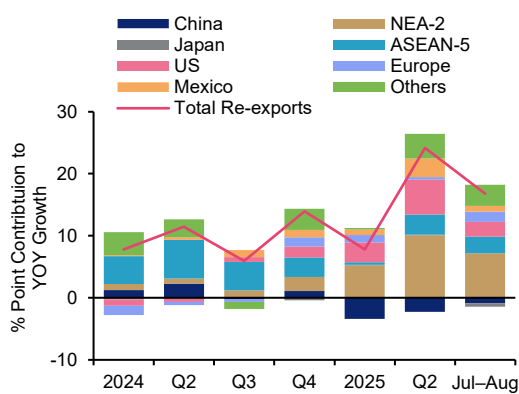
Meanwhile, the payback from front-loading has been more modest than expected

Re-exports remained buoyant in Jul-Aug, underpinned by electronics demand linked to AI-related products such as automatic data processing machines (Chart 3.4). By destination markets, re-export growth was broad-based, driven mainly by the NEA-2, ASEAN-5, and US (Chart 3.5). Further, the payback in trade flows from earlier front-loading—which was more evident in re-exports than domestic exports—appears to be less severe than initially envisaged. This could suggest that underlying demand remained supportive of growth, in addition to some continued front-loading in early Q3.

Chart 3.4: Contribution to Nominal Re-export Growth by Product Chart 3.5: Contribution to Nominal Re-export Growth by Market



Source: EnterpriseSG



Source: EnterpriseSG

The retail and travel-related sectors also surprised on the upside, likely supported by fiscal transfers and a boost from tourism

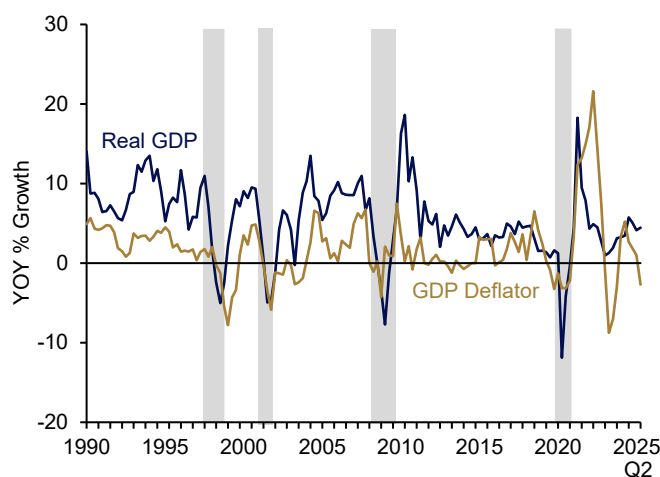
Despite ongoing uncertainty from trade headwinds, the domestic consumer-facing sectors appeared to hold up in Q3. Retail sales volumes increased by 4.3% y-o-y in Jul–Aug driven by motor vehicles, supermarkets & hypermarkets as well as the telecommunication & computer segments. The improvement in retail sales could be due in part to the support from fiscal transfers, such as the SG60 and CDC vouchers. Additionally, increased visitor arrivals, primarily from Asia (Japan, Malaysia and Indonesia) and Australia, bolstered the tourism-related sectors. Hotel occupancy rates rose to 91% in Jul–Aug, the highest level reached since August 2019.

3.2 Outlook

Singapore will likely experience a modest pace of expansion for the rest of the year and into 2026

Similar to the rest of Asia, prices are bearing the brunt of adjustment in Singapore. The GDP deflator fell by 2.7% y-o-y, while real GDP growth remained firmly positive in Q2 2025. Such a divergence has not been common in the domestic economy prior to the pandemic, as price erosions typically coincided with real output losses (**Chart 3.6**). The decline in the GDP deflator in Q2 2025 was driven by the deflator for exports of goods and services.

Chart 3.6: Real GDP and GDP Deflator



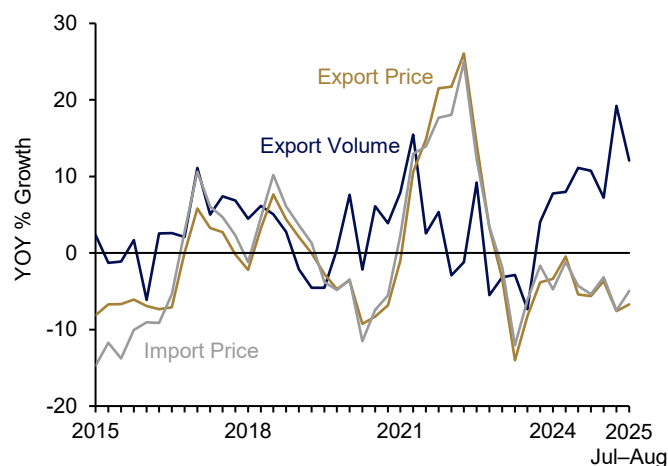
Source: DOS

Note: Grey bars indicate periods of economic shocks: the Asian Financial Crisis, Global IT Downturn, Global Financial Crisis, and COVID-19 Pandemic (in chronological order).

Export prices for goods have fallen in tandem with import prices, despite continued export volume expansions (Chart 3.7). The divergence between export volume and prices could be linked to the improvement in supply-side conditions post-COVID. As newly reconfigured supply chains stabilised, improving accessibility to key commodity inputs and logistic networks, exporters were able to pass on cost savings to customers. Oil prices have also fallen substantially, alleviating production costs. However, more recently, demand-side factors may be taking precedence. To preserve market share, exporters might have lowered prices in response to weaker external demand caused by tariffs. If trade frictions persist, and

the scope for price cuts is exhausted, more noticeable adjustments in export volumes could follow.

Chart 3.7: Goods Export and Import Price Indices and Export Volume

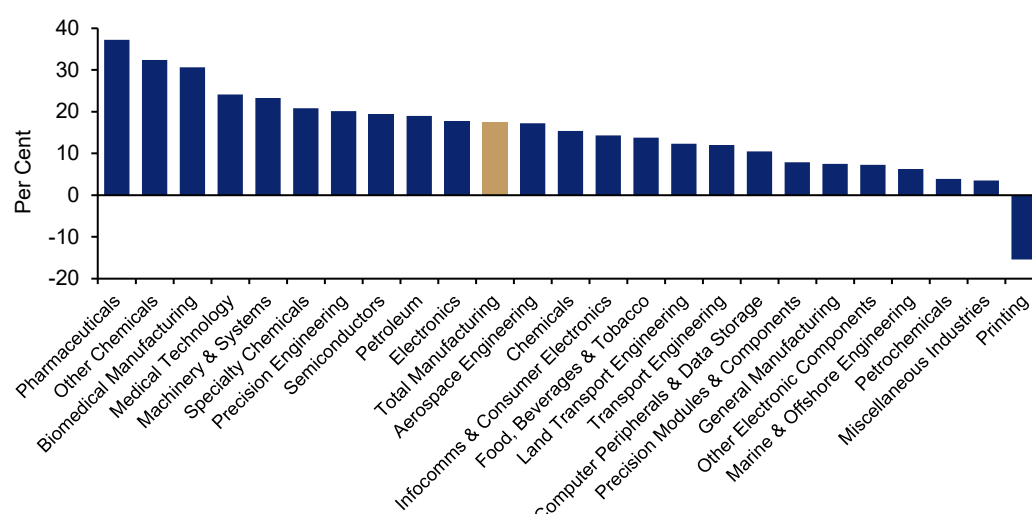


Source: DOS, EnterpriseSG and EPG, MAS estimates

Note: Export volume growth was computed as the difference between nominal exports and export price index growth.

Barring unexpected shocks, the transition to the production cut-back phase is likely to be gradual

Barring a sudden increase in tariffs or a sharp fall-off in demand, firms in the manufacturing sector should have adequate financial buffers to absorb price declines without significantly reducing production at least for the rest of this year. Latest available data (2023) show that profit margins—as measured by net operating surplus per unit of output—for manufacturing firms were relatively healthy at 18% in aggregate (**Chart 3.8**). With the manufacturing sector's nominal GDP having held up in 2024 and thus far this year as well, it suggests that there is generally room for firms such as those in electronics and precision engineering to make downward adjustments to their prices before their operations become financially unsustainable. However, other manufacturing industries such as petrochemicals and printing, which experienced weak or negative profit margins, could be compelled to scale back production in the face of price competition.

Chart 3.8: Profit Margins of Manufacturing Firms, 2023

Source: EDB

Note: Profit margin is proxied by the ratio of net operating surplus to output.

Moreover, global capital expenditure, driven by the ongoing AI boom, should continue to support some key segments of the trade-related sectors in the near term. Global tech companies continue to invest heavily in AI infrastructure, particularly to support development of new foundation models including large language models.¹ Firms are transitioning from experimentation to full-scale AI integration to automate operations and enhance customer experiences. Along with the emergence of agentic AI, these advancements and the accompanying data centre expansions have driven chip sales and are expected to sustain their demand going forward. Global chip sales grew by 24% y-o-y in Jul–Aug, building on a 19% increase in H1 2025. The World Semiconductor Trade Statistics (WSTS) has raised its global chip sales growth forecast to 15.4% for 2025 (up from 11.2%) and 9.9% for 2026 (up from 8.5%). Semiconductor manufacturing equipment sales are also expected to rise 7.4% in 2025, with further growth of 10% in 2026.

Accordingly, Singapore is likely to benefit from increased derived demand for products supporting AI applications, which include memory chips, servers and networking equipment. The electronics PMI rose by 0.3 point to 50.7 in September 2025, marking its fourth consecutive month of expansion. Micron’s high bandwidth memory plant is expected to start production in Singapore from 2026, producing chips for AI accelerators used in data centres.

Beyond manufacturing and other trade-related sectors, continued interest from businesses in adopting AI solutions would likely bolster growth in the information & communications and professional services sectors. The IT and information services segment has registered robust growth in recent quarters, likely driven by the strong demand for data centres, IT consulting, and hosting services. Looking ahead, local tech firms are expected to continue advancing their AI strategies. Based on a recent BCG survey², around 40% of companies in Singapore plan to spend more than US\$25 million each on AI in 2025. Some local firms have also

¹ For instance, Alphabet is expected to spend US\$85 billion in capex in 2025 to enhance the company’s technical infrastructure, primarily for servers, as well as data centres and networking. Amazon plans to invest over US\$100 billion in AI and cloud expansion in 2025, focusing on data centres and cloud infrastructure to meet surging demand for AI-driven solutions.

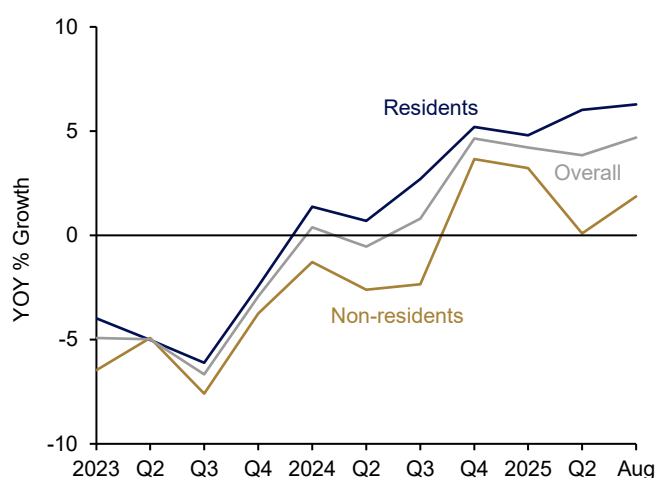
² Boston Consulting Group (BCG), *BCG AI Radar 2025*, January 2025.

signalled sustained investment commitments. For example, NCS has budgeted a S\$130 million outlay over the next three years in AI-related projects, global partnerships and workforce training. Likewise, new business opportunities arising from AI could continue to attract global tech firms to establish regional bases locally amid the government's efforts to strengthen Singapore's position as a hub for AI expertise. Consequently, this could benefit the head offices segment within the professional services sector.

The financial sector is projected to grow at a steady but more measured pace in the coming quarters

Meanwhile, the financial sector is expected to grow at a moderate pace in 2025 and 2026. As global interest rates decline further, banks' net interest margins are expected to narrow although looser financial conditions could provide some counterbalancing support to banks' overall profitability. In the immediate term at least, credit demand should stay healthy as business sentiment improves amid some reduction in uncertainty. The latest data in August showed overall loans to non-bank customers growing by 4.7% y-o-y compared to 3.8% in Q2, boosted by higher corporate loans to residents and increased lending to the Americas (**Chart 3.9**). In financial markets, economic data surprises and evolving international trade policy may spur bouts of price volatility. Such volatility could sustain trading activity and support the net fee and commission incomes of fund managers, and forex and security dealers.

Chart 3.9: Loans to Residents and Non-residents



Source: MAS

Growth in the consumer-facing sectors could slow in the quarters ahead

The retail and F&B sectors are likely to register tepid, uneven growth in 2026, with limited support from resident household spending. While retail spending has picked up recently, the boost from SG60 vouchers is expected to taper off as the vouchers approach their expiration dates. Nevertheless, strong household balance sheets should provide a base layer of support³.

³ The household sector's net worth grew by 8.1% in H1 2025, much higher than the pre-COVID average of 5.9% p.a. over 2015–19. Even if property assets, CPF, pension and life insurance are excluded from total assets, the adjusted net worth grew by 10.5% in H1 2025, higher than the pre-COVID average of 9.1%.

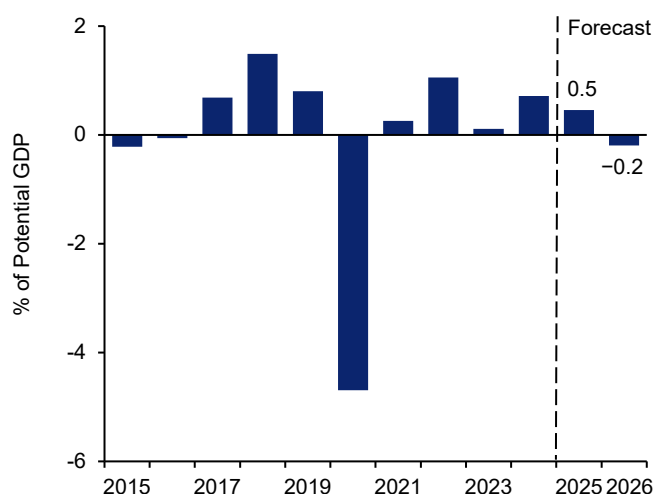
Meanwhile, MICE events⁴, along with the opening of The Laurus at Resorts World Sentosa, are expected to provide some uplift to visitor arrivals and, in turn, retail and F&B sales.

In sum, the Singapore economy has expanded at an above-trend rate this year, but GDP growth is expected to step down in 2026 as tariff effects start to bite

With the better-than-expected advance estimates for Q3, the domestic economy's output gap will remain positive, at 0.5% of potential GDP (Chart 3.10). The economy has thus far been more resilient to the US tariff shock than previously envisaged. Looking ahead, GDP growth is expected to moderate in 2026, with the output gap narrowing to around 0%. Uncertainty around the economic outlook has receded somewhat with the conclusion of some trade deals between the US and various countries. However, the outlook remains cautious, reflecting the lagged impact of ongoing tariff-related adjustments and its spillovers to real economic activity. Fresh trade frictions and a correction in the uplift from AI demand also present downside risks to the growth outlook.

Notably, the recently announced 100% tariffs on China and pharmaceutical tariffs have not been incorporated into the baseline forecast given the uncertainty regarding implementation. Moreover, the pharmaceutical tariffs may not have an immediate impact on the exports of pharmaceutical firms in Singapore as these firms already have plans to build capacity in the US.⁵ Similarly, the US has signalled potential tariffs on semiconductors, with the eventual impact depending on details of their application.

Chart 3.10: Output Gap



Source: EPG, MAS estimates

⁴ MICE refer to Meetings, Incentives, Conferences and Exhibitions. This includes annual events such as the Singapore Fintech Festival, and biennial events such as the Singapore Airshow and Asia Pacific Maritime.

⁵ Source: "Pharmaceutical firms in Singapore clarifying tariff exemption eligibility, many have plans to invest in US: DPM Gan", CNA, 27 Sep 2025.